

UNIVERSAL
LIBRARY

OU_156068

UNIVERSAL
LIBRARY

OSMANIA UNIVERSITY LIBRARY

Call No. 327/S78 W

Accession No. G. 10484

Author Staley, Eugene

Title Way and the private investor.

This book should be returned on or before the date last marked below. 193

WAR
AND THE PRIVATE INVESTOR

WAR AND THE PRIVATE INVESTOR

A Study in the Relations of International
Politics and International Private
Investment

BY
EUGENE STALEY

*Assistant Professor of Economics in
the University of Chicago; Professeur-Adjoint
à l'Institut Universitaire de Hautes Etudes
Internationales, Geneva*

FOREWORD BY
QUINCY WRIGHT

INTRODUCTION BY
SIR ARTHUR SALTER



THE UNIVERSITY OF CHICAGO PRESS
Chicago, Illinois
1935

PRINTED AT THE *Country Life Press*, GARDEN CITY, N. Y., U. S. A.

Published by arrangement with the
University of Chicago Press by Doubleday, Doran & Company, Inc.

COPYRIGHT, 1935
BY THE UNIVERSITY OF CHICAGO
ALL RIGHTS RESERVED
FIRST EDITION

Foreword

THE PRESENT STUDY is part of a coöperative project for investigating the causes of war initiated by the Social Science Research Committee at the University of Chicago in 1927. While it is planned to publish a general summary of the results of the investigation, those special studies which have an independent interest, of which this is one, are published as they are completed.¹

The project began with no theory of the causes of war but with a series of approaches suggested at several meetings by members of the departments of political science, economics, history, sociology, anthropology, geography, and psychology at the University of Chicago in the spring of 1926. Certain of these suggestions were selected for detailed study by research assistants working under the direction of members of the University staff or by members of the staff itself, but such unity as the project may eventually

¹Those published to date as books or articles include, in addition to the present volume and several preliminary studies by Mr. Staley which have appeared in journals: Frederick L. Schuman, *War and Diplomacy in the French Republic*, New York, 1931; Harold D. Lasswell, *World Politics and Personal Insecurity*, New York, 1935; Hazel C. Benjamin, "Official Propaganda and the French Press during the Franco-Prussian War," *Journal of Modern History*, June, 1932; James T. Russell and Quincy Wright, "National Attitudes in the Far Eastern Controversy," *American Political Science Review*, August, 1933; Philip Davidson, "Whig Propagandists of the American Revolution," *American Historical Review*, April, 1934; Schuyler Foster, "How America Became Belligerent; a Quantitative Study of War News, 1914-17," *American Journal of Sociology*, January, 1935.

Foreword

acquire will be a result of final synthesis rather than of initial analysis.

The studies planned included several on the influence of economic activities upon international conflict and war. Among such activities the investment of capital across national boundaries has been considered by many writers a leading source of international friction. It has often been argued that capitalists in the developed countries seeking new opportunities for the possible investment of funds turn to the weak and backward areas. They induce their governments to offer diplomatic, naval, and military assistance, frequently leading to hostilities with the local government or even to wars with rival imperial powers.

In this book, Mr. Staley concludes that this theory, while illustrated in some cases, tends to put the cart before the horse, insofar as direct relationships, verifiable by concrete case studies, are concerned. "Foreign investments," he finds, "have been considerably more useful as an aid and protection to navies than navies have been as an aid and protection to foreign investments." (P. 100) "The tendency of the argument has been to substitute *expansionism*, for the pressure of immediate private investment interests, as the villain of the drama, in so far as investment frictions between capital exporting countries are concerned." (P. 427) Mr. Staley is aware that investment interests may have a part in creating the political atmosphere of "expansionism." He is also aware that international investments have been the immediate source of certain serious international controversies, but an investigation of such cases shows that most frequently a government had induced reluctant capitalists to invest in a foreign area in order that it might have an instrument or a pretext for pushing political objectives. "Private investments seeking purely business advantage have rarely of themselves brought great powers into serious political clashes." (P. 360)

While Mr. Staley deals in detail only with the influence

Foreword

of international private investments, he finds in his study an illustration of a general condition in the modern world—national political objectives and methods are out of harmony with a world the parts of which are made interdependent by modern communications and economic exchanges. For this “tendency of economic change to run ahead of political adjustments” various solutions are possible, but that which Mr. Staley considers both most probable and most desirable is a further development of world political, administrative, and legal controls. He proposes in some detail certain world institutions for better adjusting investment friction, and thus reducing one important, if not major, cause of war.

QUINCY WRIGHT

University of Chicago
April, 1935.

Introduction

IN A WORLD in which there is, and must be, a perpetual conflict of separate human interests and activities, secure peace—the avoidance of physical violence—is only possible as the counterpart of government. The government must be appropriate in character to the conflicting and dangerous activities it has to control, and its scope must be as wide as theirs. Moreover it must be fitted to the double task of repressing violence when it is threatened by actual disputes, and also of so continuously supervising and regulating the activities out of which disputes arise that they do not develop too powerful an explosive force for the machinery of restraint to cope with.

This is equally true when we are looking to what happens within the area of a single country or in the world as a whole. In a single country the avoidance of individual violence or of revolution depends upon the existence of a government which can both repress and punish and also provide a permanent framework of law, etc., within which separate activities can be coördinated and claims adjusted. The second function is as important as the first, which would obviously soon become impossible without it. In most countries a national government exists which performs both functions with varying degrees of success, but sufficient to make both individual violence and revolution a comparatively rare exception.

But it is equally true that so far as dangerous conflicting

Introduction

activities extend beyond national frontiers, a form of government with an equal scope, and capable of performing both these functions, is equally indispensable. Since there are many such activities, since they are increasing in number and also tending to become more dangerous in character, this means that the only ultimate alternative to war is the establishment of a World State.

To make such a statement which, if properly understood, is scarcely disputable by any intelligent person, is merely to pose the problem, not to solve it. What should be the scope and functions of such a World State, as distinct from those which should still remain within the ambit of national or local authorities? And, equally important, what are the practical stages by which the necessary form of united world government can be aimed at?

In each case the answer is difficult, but must in large measure be sought by a close and realistic consideration of the activities which actually need regulation of more than a national scope.

The most numerous, and the most important, of these are economic. The greater part of most men's activities are concerned with earning and spending. They have indeed very many other contacts with their fellows, both within their own country and outside—cultural associations and so on, but these, not being rooted to the same extent in a strong material interest, are not likely to be so provocative of dangerous conflict.

The economic activities of man are thus, among all his normal activities, those which most need attention if we are considering the problem of world government—or (for it is ultimately the same thing) the problem of avoiding war.

We need, however, in studying them, to be especially on our guard against certain fallacies. The first is that economic factors can be carefully studied in isolation as presenting a causal sequence, apart from other factors, in leading to war. They are not a simple chain, but a thread in an intricate pattern. They usually only become dangerous when forming

Introduction

an element in an amalgam which contains many other factors, racial hatreds, conceptions of power politics and so on. It is the interaction of economic with other motives that constitutes the essence of the psychology of war.

The second danger against which we need to be on guard is the bias arising from opinions formed mainly on other grounds as to the respective merits of capitalist enterprise and socialism. The protagonists of each system claim, with some truth, but each with a one-sided truth, that the other's system involves more dangers to peace. The one says, and with truth, that it is the association of governments with economic conflicts that makes them more than the quarrels of individuals and the possible origins of wars. He concludes that completely nationalized economic systems would represent the maximum of danger. He usually, however, fails to develop this argument to the extent of demanding that governments should refrain from assisting their nationals in their competition by tariffs, etc., and he usually ignores the extent to which large private interests control or deflect the policy of governments, so that the most dangerous combination of power without responsibility results. The socialist points with truth to the dangerous forces that arise from the intense conflict of economic interest, made powerful, but not responsible, by combination. Or he becomes doctrinaire and repeats, in one form or another, the particular reading of history which he has learnt from Marx or his interpreters. He rarely proceeds to consider coolly the sources of friction which remain between nationalized economies, and the special dangers that would arise when those who control economic activity also control the armed forces.

The fact is that there will be economic causes of conflict if there is socialism, and if there is not. There are dangers common to both systems; and each system has its own specific and different dangers from which the other is comparatively exempt. Our problem will be somewhat different according to the system, but it will remain in either case until we have a sufficient measure of world government.

Introduction

Now this limited world government will (short of intervening chaos) be necessarily built up by a process of delegation from, and coöperation between, national governments. We must contemplate alike negotiation on actual controversies, the extended delegation of power to world organs by successive treaties, and also, for whatever at any moment has not reached this stage, an accepted code of principles of conduct which will govern the action of individual states or at least afford a criterion by which it is possible to judge whether they are, in any given action, behaving justifiably or not.

At present the machinery of world government is embryonic; the development of regulative law by treaty fragmentary; the growth of an international morality or code of conduct very rudimentary.

Advance along the lines suggested requires as its foundation an objective, scientific, and dispassionate inquiry in every main sphere of economic and financial activity, to see what in fact are the dangerous tendencies, and by what methods or agreed principles of conduct the dangers can be averted or mitigated.

Mr. Staley, in this book, has undertaken just such a study, in one particular sphere, that of private foreign investments. He is not dealing with loans between governments (such as the war debts), or loans of private individuals to governments (such as the League of Nations loans), but with the investments of private individuals and corporations whether assisted by governments or not.

In my view, Mr. Staley has, within this necessarily limited but vitally important sphere, performed a public service of very great value. His investigations into actual conflicts are wide in scope and scientific in character. His classification and analysis are careful, balanced, and dispassionate. He has in my view presented the relation between the different factors, and the way in which they are interwoven, more accurately than any previous student in this sphere whose work I have seen. In particular he has graphically, and convincingly, depicted the way in which economic motives

Introduction

proper are converted into something much more dangerous when they are united, in a Minister's mind, with vague ideas of national power and prestige.

In the last part of his book Mr. Staley has proceeded from diagnosis to suggested remedies. In this sphere he necessarily leaves to some extent the rôle of the scientific investigator, and expresses personally, as a citizen of the world, his own political convictions—though they are enriched and strengthened by his earlier investigations. His proposals are naturally more disputable than his inquiry into facts and his analysis of them. Personally, I am in entire agreement with him, as I have already indicated, in his main conclusion, that there is no ultimate satisfactory solution except in the development of world government. We should all of us have somewhat different views as to the exact methods and processes of the transition, and the exact form of the government which should result. Mr. Staley's suggestions are interesting, and though personally I should like to see them amplified and amended in some respects, his work as a whole entitles him to receive serious consideration for what he proposes.

In any case, whether we agree or not with his final proposals, Mr. Staley's examination of one sphere within which serious conflicts have arisen and are arising is of great value. I sincerely trust that he and others will work in the same way, and in the same spirit, in other spheres of inquiry. Questions of commercial policy, population, migration, loans to governments are among those which imperatively demand scientific and dispassionate inquiry—and (if it is not too much to hope for) some attention by Statesmen to the results.

ARTHUR SALTER.

Author's Preface

The aim of this book is to present an objective, documented study of the relationships between private investments and international politics, particularly in their bearing on international political friction. In few realms, as much of the previous writing on this subject shows, is it more tempting to begin with plausible hypotheses and then to erect them into soul-satisfying theoretical structures without the bother and the infinite labor demanded by constant verification through comparison with concrete data. This study tries hard to stick to what can be verified and proved. While it has no doctrinal axe to grind, its results may well give pause to those with whom it has become almost a fad to assume that private economic interests are the most important immediate causes of international political friction. Perhaps there has been too hearty acceptance of the doctrine that (in the words of George Bernard Shaw) "The wise man looks for the cause of war not in Nietzsche's gospel of the Will to Power, or Lord Roberts's far blunter gospel of the British Will to Conquer, but in the custom house." The case studies analyzed in this volume should be a challenge to some serious rethinking on the complex interrelations of economics and politics.

True enough, private investors abroad have sought to secure diplomatic aid for their projects, and their influence on diplomacy has at times brought conflict between governments. On the other hand, international friction over private investments has been a good deal more frequent and danger-

Author's Preface

ous where private investments have been pressed into service as instruments, tools, of a larger political purpose which the investments themselves did not originate. Investments used in the service of naval and political strategy, colonial expansion, quests for national glory, and the like, have been more productive of international friction in the past than investments actuated solely by private profit motives. Not to be misunderstood, it must be added that these assertions refer only to the immediate, direct relations between investments and diplomacy, and therefore they are not an attack upon the "economic interpretation of history" in its broader form. It may still be true that the larger political purposes in the service of which private investments become most dangerous—expansionism, the strategy of power, etc.—are themselves the product of forces best described as "economic." Whether one prefers to look upon the political ideas of ruling statesmen as ultimately conditioned by their economic environment or not, it is important in any case not to have false notions about the *direct* interplay of private investment interest and national foreign policy. For example, one who would advocate close supervision by a national government over the private investments of its citizens abroad as a means of avoiding political friction would be acting on the theory (perhaps unstated) that trouble over investments usually arises because private-profit seekers drag their governments into conflict situations that the governments would like to avoid. That theory would be wrong and the policy would be unsuited to its purpose.

Part I of this book endeavors to analyze the relationships between the private foreign investments of citizens and the foreign policy of governments. It sets out to answer two questions: What are the various services which private investments abroad may perform in the interests of governmental policy? and What are the various services which government may perform in the interests of its citizens' private investments abroad? This portion of the work, in other words, explores the mutual services rendered by in-

Author's Preface

vestment to diplomacy and by diplomacy to investment. The second portion of Part I turns to two questions which follow quite obviously on the first pair, namely: What are the methods whereby government officials and diplomats influence investors to act in ways helpful to national foreign policy? and What are the methods whereby investors influence government officials and diplomats to assist them in their quest for profits? That is, having noticed the reciprocal services which investments may perform for diplomacy and which diplomacy may perform for investments, attention is then devoted to the processes, the connecting links, through which the influence of each on the other is actually exerted.

Throughout Part I the analytical and descriptive passages are interspersed with concrete case material. Indeed, some of the chapters are simply case studies, inserted to illustrate, clarify, and support the conclusions stated in the analytical portions of the text.

Both the problem and the method of presentation are different in Parts II and III. There the questions to be answered are: What is the rôle of international private investment in the origin and development of international political friction and war? If one is interested in lessening the causes of war, what general policy, and what specific measures, can be recommended for dealing with the political problem of international private investments? Some concrete illustrative material appears in this section of the book, especially in the chapters which analyze the types of conflict that may arise between capital-exporting countries or between a capital-exporting and a capital-importing country, but for the most part it builds upon the factual background of Part I. It is dedicated to systematic analysis, presentation of conclusions, and the elaboration of these conclusions into (more or less) practical recommendations as to policy.

This research was begun in the fall of 1928 and has been carried on steadily, along with other occupations, since that time. It originated as a "Causes of War" project under the Social Science Research Committee of the University of

Author's Preface

Chicago. Much of the investigating was done in Europe from 1929 to 1931 during my two-year tenure of a Social Science Research Council fellowship. The actual writing has been accomplished and the study brought to completion in subsequent summer vacations and while teaching at the University of Chicago, with some delay due to a severe illness.

The original conception of the project is not altogether apparent in the completed work here offered, for a good deal of the methodological scaffolding has been torn away; a few words on this point are therefore appropriate. I began with the idea of discovering and comparing all instances in recent times (roughly, since 1880—the last half-century, that is) in which international private investments have either caused or been involved in political dispute between national states. The method was to go through the literature, good, bad, and indifferent, on causes of war, diplomatic history, economic imperialism, and the like, listing all the cases in which anyone alleged that private investments had been a factor in international political disputes. I also searched for cases which had not been previously mentioned. Then I undertook to study each of these cases, utilizing the results of previous investigations wherever competent research had already been done. In many instances, however, it was necessary to go to the primary sources for answers to at least some of my central questions.

The sources from which information on the political aspects of international private investments must be obtained—when such information is obtainable at all—cover an extreme range, from any point of view, whether of reliability, form, accessibility, or completeness. I have made use, for example, of official diplomatic documents; memoirs and biographies of statesmen, diplomats, and business men; parliamentary inquiries and congressional hearings; newspaper files; archives of foreign offices and banks; reports of consuls and commercial attachés; reports of corporations to stockholders; court testimony and decisions; propaganda pamphlets and periodicals published by colonial societies, chambers

Author's Preface

of commerce, anti-imperialist leagues, and the like. Even the more or less casual accounts published in books of travel by explorers and others who happened along in out-of-the-way places where investment friction was brewing have occasionally been useful. In addition, some most illuminating evidence was gathered in personal interviews with statesmen and diplomats, active or retired business men, bankers, engineers, journalists, and others who have had direct knowledge of politico-financial affairs. Obviously, in view of the extremely scattered nature of such material and its immense volume (much chaff has to be threshed for very little wheat) it was impossible to make a thorough, first-hand study of every case where private investments have been related to political friction. My compromise was to learn something, even if at second hand, about every case, and to go deeply into a select group of them. These latter were chosen either because they seemed to have an especially important bearing on the problem of this research, or because they had never been studied before, making it necessary to investigate them from the bottom up.

The method, then, was that of historical case study, but not for the purpose of writing history or reporting case studies. Instead, all the individual investigations, which sometimes became quite detailed, were directed constantly toward finding the answers to general questions of the type stated above. Had the material been written up in the form in which it was collected, the chapters of this book would have been a series of case studies:—"Manchurian Railways and the Powers," "The United Fruit Company in Central America," "The Rumanian Oil Controversy," "Politics and Investments in Nicaragua," etc., etc. As it is, the actual chapters of this book are organized around a systematic analysis of problems and processes, with fragments of the case studies inserted at appropriate points to illustrate and substantiate the analysis, and with occasional complete case studies presented in condensed form for the same purpose. The whole argument, in short, is based on case studies and illustrated by

Author's Preface

them, but its form and purpose is systematic and analytical rather than historical.

Some of the more original and detailed individual studies made in preparation for this book have been published as separate articles. Thus it was possible to give a more adequate statement than would be permissible in a general work of the sources of the data, interesting circumstances connected with the cases, and reasons for interpreting conflicting evidence in certain ways. These studies, of which summaries are included at various points in Part I, are as follows:

"Mannesmann Mining Interests and the Franco-German Conflict over Morocco," *Journal of Political Economy*, XL (February, 1932), 52-72.

"Italy's Financial Stake in Albania," *Foreign Policy Reports* (published by the Foreign Policy Association), VIII, No. 7, (June 8, 1932), 80-86.

"Business and Politics in the Persian Gulf: The Story of the Wöneckhaus Firm," *Political Science Quarterly*, XLVIII (September, 1933), 367-385.

"Private Investments and International Politics in the Saar, 1919-20: A Study of Politico-Economic 'Penetration' in a Post-War Plebiscite Area," *Journal of Political Economy*, XLI (October, 1933).

"Private Investments and the Conquest of Tunis," manuscript as yet unpublished.

"Chartered Companies," manuscript as yet unpublished.

It is a pleasure to acknowledge here the great obligation which this work, and its author personally, owes to Professor Jacob Viner of the University of Chicago, who provided the original stimulus to this research and contributed valuable suggestions and criticisms during the course of its prosecution. First as a teacher of economic theory and international economic relations, later as a colleague and friend, Professor Viner's counsel in this field has been invaluable. Professor Quincy Wright, chairman of the committee in charge of causes of war research at the University of Chicago, has aided from the first in many ways, and has been most kind in reading and criticizing large sections of the manuscript. Other members of the Division of the Social Sciences at the University of Chicago who have obligingly read parts of the

Author's Preface

manuscript and given the benefit of their reactions are Professors Harold D. Lasswell, Melchior Palyi, and Harry D. Gideonse. Mr. W. B. Harvey has assisted skillfully in collecting and checking material.

To the many other people in Europe and the United States who have facilitated this work by information supplied in personal interviews, by putting me in contact with persons and sources of information, by advice, discussion, criticism, and by friendliness and hospitality during my sojourn in different localities, I offer a general word of thanks. Their helpfulness is sincerely appreciated, though the very great amount of such aid received over a period of more than five years renders individual acknowledgement impossible here. For courteous service to a reader whose topic demanded that he turn over masses of the most miscellaneous books and documents, I am grateful to librarians and their staffs at the University of Chicago, the Library of Congress (Washington), the League of Nations Secretariat (Geneva), the Bibliothèque Nationale, and the libraries of the Ministry of Colonies and the Ministry of Commerce (Paris), the Staatsbibliothek and the library of the Foreign Office (Berlin), the British Museum and the library of the London School of Economics (London), and the Institut für Weltwirtschaft und Seeverkehr (Kiel). The pleasant working facilities at the latter institution, the high caliber of the staff (before the National Socialist revolution), and the splendidly organized library and archives devoted to the special field of international economic questions rendered my stay of seven months there particularly productive.

This project received financial support from the Social Science Research Council, in the form of a traveling fellowship which enabled its author to work in Europe, and from the Social Science Research Committee at the University of Chicago.

EUGENE STALEY.

Contents

	PAGE
Foreword by Professor Quincy Wright	v
Introduction by Sir Arthur Salter	ix
Author's Preface	xv

THE PROBLEM

Chapter 1. Amounts and Types of International Investment	3
Chapter 2. Investments Entangled in Politics: The German Private Debts; The Story of the Wönckhaus Firm	31

PART I

PRIVATE INVESTMENTS AND DIPLOMACY

A. INVESTMENTS SERVE DIPLOMACY.	
Chapter 3. Type Cases: Yalu, Tripoli	55
Chapter 4. How Investments Serve Diplomacy	71
B. DIPLOMACY SERVES INVESTMENTS.	
Chapter 5. Type Cases: Samoa, Episodes from Persia, Venezuela, Haiti, Mexico	109

Contents

	PAGE
Chapter 6. How Diplomacy Serves Investments	140
C. INVESTORS INFLUENCE GOVERNMENTS.	
Chapter 7. Type Cases: Mannesmanns and Morocco; Rhodes and the Jameson Raid	178
Chapter 8. How Investors Influence Their Governments	204
D. GOVERNMENTS INFLUENCE INVESTORS.	
Chapter 9. Type Cases: Albania, The Saar	235
Chapter 10. How Governments Influence Their Investors	271
E. FOREIGN POLITICS AND FOREIGN INVESTMENT INTERTWINED.	
Chapter 11. Modern Chartered Companies	304
Chapter 12. The Conquest of Tunis	327

PART II PRIVATE INVESTMENTS AND THE CAUSES OF WAR

A. ANALYSIS OF INVESTMENT FRICTION AND INVESTMENT CONFLICT.	
Chapter 13. Conditions Under Which Investments Are Most Frequently Involved in Political Friction	357
Chapter 14. Potential Conflicts Between Capital-Importing and Capital-Exporting Countries	389
Chapter 15. Potential Conflicts Between Capital-Exporting Countries	415
B. THE PROBLEM OF ADJUSTMENT.	
Chapter 16. The Failure of Diplomatic Protection	435
Chapter 17. Underlying Causes of Investment Friction	455

Contents
PART III
TOWARDS A POLICY

	PAGE
Chapter 18. Alternative Courses of Action	469
Chapter 19. Specific Suggestions	498

APPENDIX

A. Numerical Data and Sources for the Charts of Chapter 1	523
B. Legal Aspects of Certain Proposals in Chapter 19	540
General Index	553
Index of Writers Cited and Persons Interviewed	559

THE PROBLEM

CHAPTER I

Amounts and Types of International Investment

HENRY FORD builds an automobile assembly plant at Manchester, England, and organizes the Ford Motor Company, Ltd. Through this English subsidiary the American parent company controls Henry Ford and Son Co., Ltd. (Cork, Fordson tractors), Ford Motor Company A. G. (Berlin), Ford S. A. Française (France), Ford Motor Company d'Italia (Italy), Ford Motors Ibérica (Spain), and half a dozen other Ford production and sales organizations throughout Europe. The I. G. Farbenindustrie, important German dyestuff and chemical concern, is represented by the American I. G. Chemical Company in the United States, while a subsidiary, Agfa, distributes photographic supplies in many countries. The Lautaro Nitrate Company, Ltd., operating in Chile, borrows \$32,000,000 by means of a bond issue floated in the American market through the National City Company, the Bankers Company of New York, and other investment houses. Dutch, Swiss, German, French, and English investors send their money for building railroads in the United States, and then in Canada. The Deutsche Bank undertakes a project for laying rails through Asiatic Turkey to Bagdad and the Persian Gulf. Standard Oil prospects, drills wells, installs refineries, pipe lines, or selling organizations over most of the world. A German metallurgist on a honeymoon trip finds specimens of iron ore in Morocco, sends prospectors, bribes

War and the Private Investor

the Sultan and the necessary officials to get mining rights, and hires international lawyers to defend the validity of his concessions.

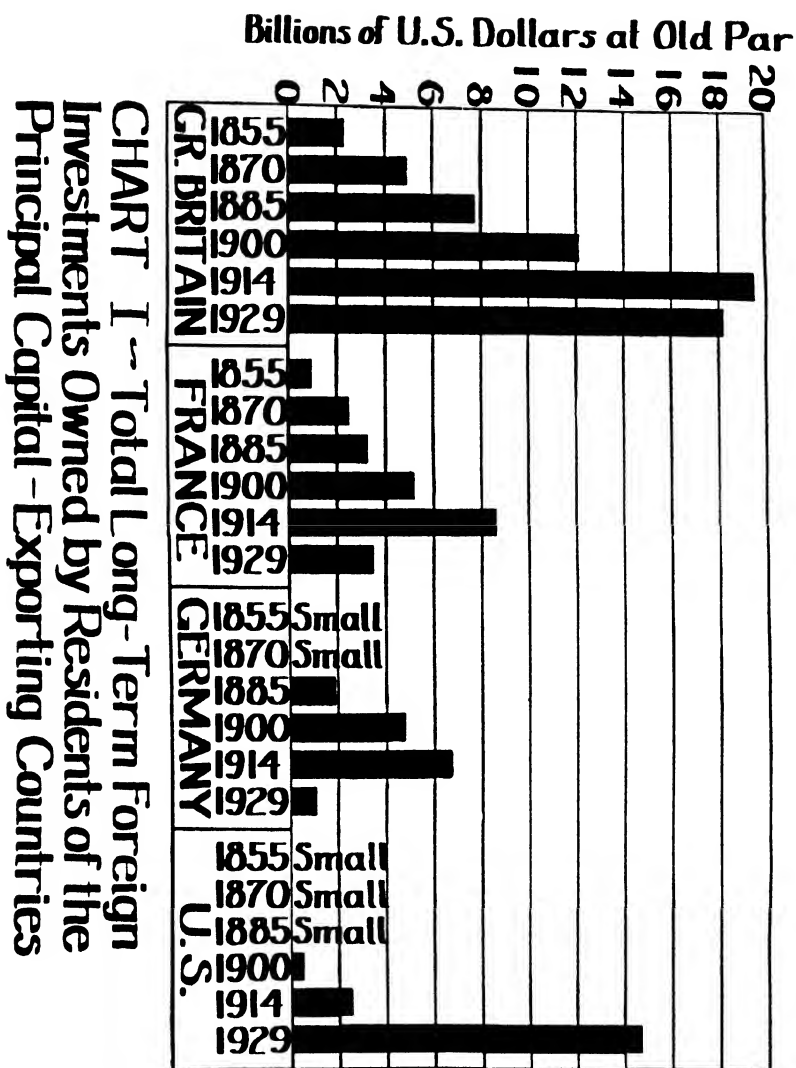
All these very diverse business proceedings are alike in one respect. They involve what is called an export of capital (import of capital from the standpoint of the country in which the investment is made), giving rise to relatively long-term investments abroad. It is the political implications of such long-term private international investments that this book studies.

AMOUNT AND DISTRIBUTION OF INTERNATIONAL CAPITAL

Figures regarding the total amounts and geographical distribution of international investments are guesses. When made with sufficient care they deserve to be called estimates. A large number of such estimates are assembled in Appendix A, where they will be available to specialists. Meanwhile some of the salient facts about international investments may be presented graphically.

The chief sources of capital for international investment in the period ending with the great war were Great Britain, France, and Germany. Countries of second rank with respect to total foreign investments were Holland, Belgium, Switzerland, and—a late comer whose investments by 1914 were probably equal to those of any of these latter countries—the United States. Chart I reveals the dominant position of Great Britain in the pre-war capital markets. It was not always thus. From the end of the middle ages until the Napoleonic wars the center of financial energy had moved gradually westward and northward through Europe, from northern Italy to Spain and Portugal, then to Holland, to France, and finally to England.¹ Early in the 19th century, when the modern era began, England was the undisputed financial center of the world. Around the middle of the century France appeared by the side of England as an important

¹Cf. C. K. Hobson, *The Export of Capital* (London, 1914), p. 80.



War and the Private Investor

capital-lending country; Germany entered in the late 'seventies or early 'eighties, the United States about 1900. Down to 1914, however, the citizens of Great Britain maintained their preëminence as foreign investors. British investments at that date were double those of any other country (in billions of dollars, Britain almost 20, France 9, Germany 7, U. S. $2\frac{1}{2}$) and were growing at the rate of approximately 900 million dollars a year. French foreign investments were increasing by some 240-350 million dollars yearly, German by 125, American by 125-150.

The world war diverted vast sums of European capital from peace-time purposes and destroyed quantities of industrial equipment, while still larger quantities suffered for want of repair and replacement. Most important of all, the war threw out of balance countless delicate adjustments of the economic organization itself, reducing its capacity to produce income for consumption and investment. After the war currency uncertainties, and in some cases runaway inflations, interfered with the normal investment of capital and wiped out large sums in existing obligations. From this whirl of war and post-war confusion, Germany emerged owing huge sums abroad for reparations, badly in need of capital, but possessed of technical competence and business skills. As a result, interest rates were high and prospects attractive; so Germany, having been one of the chief investing nations, became a leading borrower. French investors, who had shown a decided preference before 1914 for "conservative" placements in bonds of the Russian Tsarist government, saw large portions of their savings wiped out altogether by the war and its aftermath. It was late in the 1920's before currency and exchange difficulties had cleared sufficiently to permit new foreign flotations in France—and then the world depression began. English investors, with their widely scattered interests in the colonies and dominions and in foreign countries all over the globe, fared much better. After some new investments in the 1920's, the best estimate for 1929 of total British holdings abroad falls only a little

The Problem

below the corresponding estimate for 1913. (This is in money terms. Since the price level was about 35 per cent higher in England in 1929 than in 1914, the figure for 1929 overstates the real value of the investments as compared with 1914.)

It was in the investment position of the United States that the most striking development occurred. American capital in the 1920's not only helped to reconstruct war-exhausted Europe, but supplied the world with large funds that, in an earlier epoch, would have been recruited in London, Paris, or Berlin. At the same time, investors and business men throughout the world continued to be attracted by opportunities in America, with the result that the United States, by 1929, not only rivaled Great Britain in the total amount of capital owned abroad but also had within its borders the largest sum of foreign-owned long-term investments in its history. It became the world's second-greatest lender and remained one of the two greatest borrowers. Chart II, which shows estimates of foreign investments in the United States and investments of United States citizens abroad at various dates, does not include inter-governmental war debts.

In Chart III the attempt is made to give some idea of the order of magnitude of total international investments in the world at certain dates and to indicate the relative holdings of important lending countries. The task has been done in detail for 1929, with particular attention to minor capital-exporting countries, by methods which are indicated in Appendix A. The reader must realize that many of these estimates are very crude, indeed, though others are based upon compilations which are fairly accurate, within the limitations imposed by the nature of such data. It will be seen that the total long-term investment across international boundaries at the onset of the world depression is put at some \$47,500,000,000 by this method. No estimates are presented for any time after the end of 1929. Drastic price shifts, bankruptcies, defaults, currency and exchange dis-

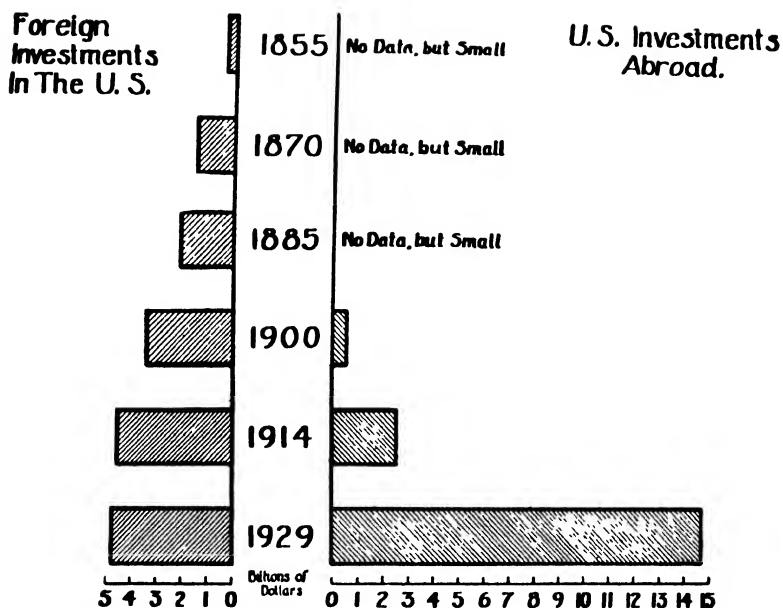
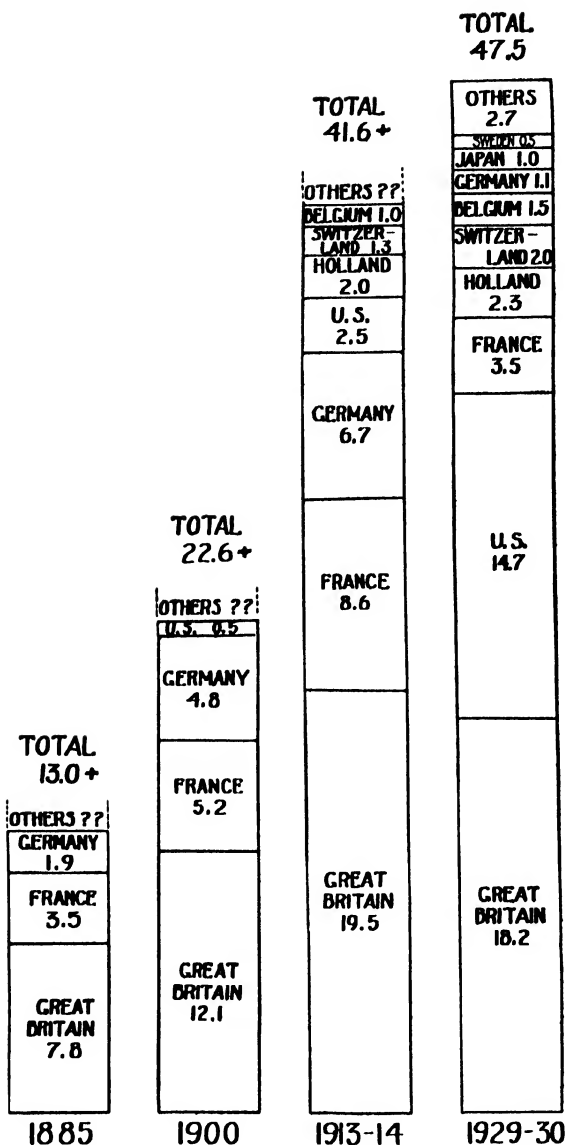


CHART II — TOTAL FOREIGN-OWNED LONG-TERM INVESTMENTS IN THE U. S. AND TOTAL LONG-TERM INVESTMENTS BY U. S. CITIZENS ABROAD



**CHART III - WORLD TOTAL LONG-TERM
INTERNATIONAL INVESTMENTS BY LENDING COUNTRIES**
Billions of U. S. Dollars at Old Par.

War and the Private Investor

locations, and general business and political uncertainties make it impossible to say, as yet, what has happened to world investments in the depression.

To what parts of the world did the capital exports of the lending nations flow? Chart IV depicts the geographical distribution of long-term holdings which had resulted by 1913-14 from the investment activities of Britain, France, and Germany, respectively, and Chart V does the same for British¹ and United States investments in 1930. Striking facts about British foreign investments at both periods are their wide scatter over the world and the comparatively minor placements in Europe. A third fact, only partly apparent in the charts, is that nearly half of all British external investments in 1913-14 were in the dominions and colonies (48 per cent), and that by 1930 this proportion had become nearly two-thirds (62.4 per cent). French and German investments in 1914, especially French, were largely concentrated in Europe. The three large fields of American investment indicated by the 1930 distribution are Latin America, Europe, and Canada, with less than 10 per cent invested in Asia and elsewhere.

Looking at the matter now from the standpoint of the capital-importing countries, Chart VI reveals the investment fields of the world having the largest gross amounts of foreign-owned capital in 1929-30. Here again, strong reservations must be made regarding the validity of the data, but, except in a few cases, they are probably accurate enough to give a rough idea of each country's quantitative importance as a recipient of international investment. This method of estimation gives a total figure of \$54,600,000,000 for the aggregate long-term international investments of the world in 1929-30. In view of the large amount of guesswork at the basis of such calculations, it is rather surprising that this figure differs from the total arrived at in Chart III by but seven billion dollars.

¹British investments in the United States are drastically understated in this chart. See Appendix A.

MISCELLANEOUS	
AUSTRALIA NEW ZEALAND OCEANIA 11.4%	AUSTRALIA 8.9%
AFRICA 12.2%	SO. AFRICA 10.0%
ASIA 14.1%	INDIA 10.2%
LATIN AMERICA 20.4%	MEXICO 2.7% BRAZIL 4.0% ARGENTINE 8.6%
UNITED STATES & CANADA 34.2%	CANADA 13.9% UNITED STATES 20.3%
EUROPE 5.2%	

A. BRITISH

AFRICA 18.9%	COLONIES 8.9% EGYPT SUEZ S. AFRICA 10.0%
ASIA 3.3%	
LATIN AMER- ICA - 8.0%	ARGENTINE BRAZ. MEX. 6.7%
U.S. & CANADA 2.2%	
EUROPE 67.6%	ITALY 2.9% ROMANIA 6.7% TURKEY 7.8% AUS. HUNGARY 7.8% SPAIN, PORT- UGAL 8.9% RUSSIA 25.1%

B. FRENCH

AFRICA 8.5%	
ASIA 4.3%	
LAT. AMERICA 16.2%	
U.S. & CANADA 15.7%	
EUROPE 53.2%	BALKANS 7.2% SPAIN-PORT. 7.2% RUSSIA 7.7% TURKEY 7.7% AUS. HUNGARY 12.8%

C. GERMAN

**CHART IV - GEOGRAPHICAL DISTRIBUTION OF
BRITISH, FRENCH, AND GERMAN FOREIGN INVEST-
MENTS, 1913 - 14.**

MISCELLANEOUS	1.5%
AUSTRALIA & NEW ZEALAND 19.4%	NEW ZEALAND 3.9%
	AUSTRALIA 15.5%
AFRICA 9.4%	W. AFRICA 1.4%
	SOUTH AFRICA 7.0%
ASIA 22.6%	CHINA 1.3%
	JAPAN 2.0%
	MALAYA 3.4%
	INDIA & CEYLON 14.4%
LATIN AMERICA 23.0%	W. INDIES 1.3%
	MEX.-CENT. AM. 1.6%
	CHILI 1.5%
	BRAZIL 4.7%
	ARGENTINE 11.3%
UNITED STATES & CANADA 16.5%	CANADA 14.0%
	U. S. 2.5%
EUROPE 7.7%	

A. BRITISH

AUSTRALIA AND NEW ZEALAND 2.7%	
AFRICA 0.7%	
ASIA 6.5%	DUTCH INDIES 1.3%
	JAPAN 2.8%
LATIN AMERICA 33.5%	VENEZUELA 1.6%
	COLOMBIA 1.9%
	BRAZIL 3.6%
	MEXICO 4.4%
	CHILI 4.5%
CANADA 25.1%	CUBA 6.8%
EUROPE 31.4%	NETHERLANDS 1.6%
	SWEDEN 1.7%
	ITALY 2.6%
	FRANCE 3.0%
	GR. BRITAIN 4.1%
	GERMANY 9.1%

B. UNITED STATES

CHART V - GEOGRAPHICAL DISTRIBUTION OF BRITISH AND UNITED STATES FOREIGN INVEST- MENTS, 1930.

TOTAL 54.6

MANY SCATTERED INVESTMENTS-TOTAL ESTIMATED 6.0	
NEW ZEALAND, FRANCE POLAND, TURKEY, RUMANIA URUGUAY, EGYPT, SUEZ, TUNIS ITALY, PERSIA, ETC. 0.5 TO 1.0 EACH. TOTAL 5.7	
SPAIN, PORTUGAL	1.0
BELGIUM	1.2
JAPAN	1.3
CHILI	1.3
CUBA	1.3
SOUTH AFRICA	1.3
MALAYA	1.6
UNITED KINGDOM 1.9	
MEXICO	2.3
BRAZIL	2.6
INDIA	2.8
ARGENTINE	3.1
GERMANY	3.2
CHINA	3.3
AUSTRALIA	3.8
UNITED STATES 4.7	
CANADA	6.1

CHART VI - WORLD TOTAL LONG-TERM INTERNATIONAL INVESTMENTS BY INVESTMENT AREAS, 1929 - 30

Billions of U.S. Dollars, At 1929 Exchange Rates.

War and the Private Investor

The following countries are the largest long-term lenders and borrowers *per capita*¹:

<i>Lenders</i>		<i>Borrowers</i>	
Total long-term investments abroad per capita of population, 1929.		Total long-term investments from abroad per capita of population, 1929.	
(Dollars per capita.)		(Dollars per capita.)	
Switzerland	493	Canada	623
Great Britain (United Kingdom)	397	Australia	592
Holland	294	New Zealand	555
Belgium	186	Cuba	360
United States	119	Chile	310
France	85	Uruguay	303
Sweden	82	Argentina	268
Australia	39	South Africa	163
Canada	36	Belgium	149
		Norway	143
		Mexico	141
		Costa Rica	129
		Venezuela	127
		Denmark	102
		Honduras	85
		Paraguay	84
		Dominican Republic	83
		Bolivia	67
		Sweden	65
		Brazil	64
		Peru	63
		Switzerland	62
		Persia	56
		Finland	52
		Germany	52
		Guatemala	51

The smallest per capita foreign investments received from abroad were found in China (\$7), India (\$8), British West Africa (\$10), and Haiti (\$11).

It may be startling to some readers to find many of the

¹The estimates of foreign investment used here are given in Appendix A. Population data from *Statistical Yearbook of the League of Nations, 1930-31*, pp. 18-25.

The Problem

important lending nations also listed among the important recipients of foreign capital:—the United States, Germany, Great Britain, Japan, Belgium. (Charts III, VI.) The totals on our charts represent the aggregate results of a vast number of individual transactions, not unitary actions by indivisible entities called “nations.” Thus, while Ford is erecting branch plants in Germany and thereby increasing American capital exports, I. G. Farbenindustrie acquires interests in the United States and sends capital for investment in the reverse direction. Or, an American bond-buyer buys German municipal securities, while a German speculates in American stocks. The growth of international capital investment thus reflects the increasing integration of the world’s economic organization. Indeed, the amount of these long-term, boundary-crossing investment ties is in a certain sense a measure of the degree to which the economic integration of the world has outstripped its political integration, or, to put it in another way, the extent to which the mechanism of production and distribution over the world is becoming unified in spite of political separatism. Here we are touching upon the fundamentals of the political problem of international investment.

Will recovery from the world depression, “when, if, and as” it appears, bring renewed international investments? Will the growth trend of the last hundred years continue, thereby proving that recent interruptions due to war and depression have been, like similar interruptions in the past, but temporary? The answer will depend mainly upon political factors. The purely economic tendency is plain. First of all, the notion that capital investment goes only from industrial to non-industrial regions and as undeveloped countries become industrialized the volume of international investment must necessarily decline is false. The data of Chart VI and Chart II are enough to disprove that theory. Secondly, there are fundamental factors of a technological sort at work in the modern world which tend toward more rather than less international investment. As the world “shrinks” under the influence of successive developments in

War and the Private Investor

methods of transportation and communication it becomes increasingly possible and profitable to make and control large capital investments at a distance. As industrial technique advances in the direction of large-scale enterprise, great capital investments in plant and equipment are necessitated, and at the same time the production stream out of which new capital can be saved is increased. There is no indication that these technological factors are likely to reverse themselves in the near future. Indeed, transoceanic aviation, streamlined land transport on still growing networks of steel and concrete, world-wide telephony and picture transmission, the development of scientific management techniques making possible central planning of larger and larger productive units—not to speak of such wonders as stratosphere navigation and the tapping of atomic energy that may be looming on the scientific horizon—make it a fairly safe prediction that the technological forces of the future will still be toward the economic integration of the world, implying larger fixed investments over larger areas. If that is the case, there is no doubt about the future bringing world-wide investment relationships beside which the present ones will seem puny—*except* for the possible interference of the political factors broadly denoted by the term “nationalism.” It is quite possible that a sufficiently widespread and intense political nationalism might continue to block the basic technological forces tending toward world economic integration. It seems more probable on the whole, however, that political nationalism will itself eventually give way under the steady pressure of these tremendously powerful forces, as other political localisms have done in the past—free cities with their local tariffs, provincial patriotisms, and “states’ rights.” But this is only a hazard.

POLITICALLY SIGNIFICANT TYPES OF INTERNATIONAL INVESTMENT

Regardless of whether capital crosses boundaries as profusely in the future as in the past, it is beyond peradventure

The Problem

that the volume of international investment already existing in the world is enough to raise serious political problems. Before proceeding to the systematic study of these problems it will be useful to set up a scheme of classification by which international investments can be grouped into types according to characteristics that may have political significance. This will serve both to re-emphasize the amazing variety of relationships lumped under the term "investment" and to call attention to the fact that this study does not pretend to deal with all types, but focuses upon *long-term, private* (non-governmental) investments.

I. *Long-maturity and Short-maturity Investments.* From the standpoint of the number of months or years which are contemplated as the duration of a particular capital placement, international investments may be classified into *long-term* and *short-term*. The first, only, are the subject of this book. Examples of long-term investment are: the building of railroads, plantations, or industrial enterprises, or the purchase of bonds and stocks of such enterprises. Long-term transactions relate to what is spoken of as the "capital market," and long-term securities are handled by investment banks. Short-term transactions, on the other hand, are associated with the "money market" or the market for "funds"; they are the chief business of commercial banks as distinguished from investment banks. They typically involve loans to importers and exporters for the financing of goods in shipment—a matter of thirty or ninety days, perhaps; deposits in foreign banks, which may be withdrawn at will or after notice; investments in acceptances, brokers' loans, treasury certificates, and the discounting of commercial paper. Short-term international investments have played an important rôle in the international problems of the post-war era, politically and economically. Especially in times of currency uncertainty the presence of enormous sums of highly mobile capital which may move suddenly from one country to another has presented baffling difficulties to finance ministers

War and the Private Investor

and central bankers, and the threat of such movements has been employed as a political weapon. This interesting field of inquiry must be left, however, to other investigators. The remaining classifications which follow are intended to fit long-term international investments only.

II. *Governmental and Private Investments.* The public or private status of those who send capital abroad or receive it from abroad obviously has a direct bearing upon the political implications of the investment. From this point of view we may usefully distinguish four main types of international investment and two hybrid types which are combinations of some of the first four:

1. Intergovernmental loans.
2. Loans by private persons to foreign governments.
3. Governmental investments in enterprises outside the government's own territory.
4. Investments by private persons in private ventures or loans to private persons abroad.
5. (First hybrid type.) Investments by private persons in foreign ventures, with a subsidy or guarantee from (5a) the government of the capital-receiving country, or (5b) the government of the capital-providing country.
6. (Second hybrid type.) Mixed enterprises—i.e., corporate organizations in which voting stock is held by one or more governments as well as by private persons.

Types 1, 2, and 3 are not dealt with in this book. Attention is concentrated upon type 4 (which defines the rather special sense in which the term "private investments" is used in this book), and upon the hybrid types, 5 and 6. The first justification for this somewhat arbitrary delimitation of the field of study is the practical one that an individual investigator, confronted with the voluminous, thinly scattered, and unassembled source material relevant to the politics of international investment, must concentrate his interests somehow. This study might have been restricted to one region:—for example, the politics of foreign invest-

The Problem

ment in China, or Mexico, or Persia, or Latin America, including both private and governmental investments. Or it might have centered on the investment politics of the United States, or France, or Great Britain. It has been chosen, instead, not to limit the geographical scope of the investigation, but to exclude some types of investment in order to concentrate on others. This seemed to offer certain advantages for purposes of reaching objective generalizations based on the comparison of many specific cases. The second justification for this choice is that loans to governments, having relatively direct and obvious political implications, have received more attention from writers in this field than have "private" investments.

Intergovernmental loans (type 1) are not common except in time of war. Examples: the war loans of the United States government and the governments of Great Britain and France to their allies, out of which the "war debts question" arose. When intergovernmental loans do occur in time of peace they almost always imply some political connection, though this may be becoming less true as governmental agencies increasingly intervene directly in the export and import trade. Example: Italian governmental loans to Albania (1931) as part of the Italian program of alliance or penetration based on considerations of military and political strategy.

Loans by private persons to foreign governments (type 2) may be further divided into loans to national governments and loans to municipalities, states, provinces, or particular government-owned enterprises such as railway systems. Examples appear in the bond market quotations of any metropolitan newspaper. Particular political significance has been attached to such loans as those floated by the Russian government in the French market before 1914; American loans to Caribbean governments; loans to the Khedive of Egypt, the Sultan of Morocco, the Bey of Tunis, and other rulers of "backward" countries; American private loans to Allied governments before 1917; and loans to China—to

War and the Private Investor

mention only a few. In former times, almost all foreign investments were loans to governments, and despite the great development of international industrial and commercial investment during the last century they still constitute a very considerable fraction of all international capital transactions. The proportion of government loans among French pre-war foreign investments was very high—well over half. About 28 per cent of British foreign investments in 1913 appear to have been of this type, and the percentage was higher, about 40, in 1929. Government loans were a comparatively small part of United States foreign investments before the war, perhaps as low as 10 per cent, while the total of national, provincial, municipal, and government-guaranteed issues held in the United States in 1930 was 40 per cent of the estimated total United States foreign investment.¹

Governmental investments in enterprises outside the government's own territory (type 3) have been relatively rare, but sometimes they have played a very important part in politics. The example most often cited is the purchase by Disraeli, for the government of England, of a block of Suez Canal shares in 1875. Other examples: The Anglo-Persian Oil Company, in which the British government owns more than half of the common stock; coal mines in the Saar, owned outright by the French government until the settlement which followed the plebiscite of 1935; the Panama Canal, constructed and owned by the United States government; the Canadian Grand Trunk Railway, government owned, and running for part of its route through the United States; Amtorg, Intourist, the United States Shipping Board, and other governmental trading and shipping agencies which operate in foreign countries. In many cases, such as that of the Anglo-Persian Oil Company and the Japanese and Rus-

¹Sources: Herbert Feis, *Europe, The World's Banker: 1870-1914* (New Haven, 1930), pp. 157, 78, 27; Thomas W. Lamont, "Foreign Government Bonds," *Annals of American Academy of Political and Social Science*, 88 (March, 1920), 121-9; U. S. Dept. of Commerce, Bureau of Foreign and Domestic Commerce, "A New Estimate of American Investments Abroad," *Trade Information Bulletin No. 767*, (Washington, 1931).

The Problem

sian railways in Manchuria, government-controlled enterprises abroad have also had a partly private ownership, partaking, therefore, of the character of "mixed" enterprises.

What are called "international private investments" in this book (type 4) include only investments by private individuals or firms in private enterprises or loans abroad, not loans to a public authority or from a public authority. Private investments so defined include both "portfolio" investments, insofar as they consist of securities of private enterprises abroad, and "direct" investments—that is, establishment of branch factories or the acquisition of commercial equipment in foreign countries. Examples: the bonds of United States railway companies floated in England, oil wells in Mexico owned by United States and European investors, the plantations of the United Fruit Company in Costa Rica and Honduras, Krupp industrial securities sold in the United States.

The two hybrid types of foreign investment (types 5 and 6) have been rather important in international politics. Railways in Tunis before the French occupation, for example, were constructed and operated by rival French and Italian companies, with subsidies from their respective governments. The famous Bagdad Railway, center of much pre-war diplomacy, was a private enterprise to which the Turkish government guaranteed a certain annual revenue per completed kilometer. Instances of mixed enterprises have already been given in connection with governmental investments abroad. (Suez Canal, Anglo-Persian Oil, Manchurian railways.) The Oriental Development Company, operating in Korea, Manchuria, and elsewhere, may be added; it is owned in part and controlled by the Japanese government. In Europe, the *Compagnie Internationale de Navigation Aérienne*, which created a French-controlled aviation network in central Europe and the Balkans, has provided an interesting example of the international mixed enterprise. Guaranteed and subsidized by the French government, it received subsidies and had representatives on its board of directors from several

War and the Private Investor

other governments; twenty per cent of its stock was owned outright by the government of Czechoslovakia.¹

III. *Migration or Non-migration of Management.* There are two types of international private investment from this point of view:

1. Loans to foreign individuals or corporations (not conferring management control on the lender).
2. Direct investments (in which management, as well as capital, is "exported"). Direct investments differ considerably in their political implications according as the management is exercised a) under the general laws of the capital-receiving country, b) under special concessions or franchises, or c) in unorganized territory, under government-like authority set up by the investor.

The first type comprises those investments in which the investor is a mere provider of capital—a lender, a bondholder—not a proprietor or manager. This is a common relationship between capital-exporting regions and relatively undeveloped but progressive, technically-competent countries. American railroads were financed in Europe but managed by Americans, and bonds of Argentine industrial companies have been sold abroad. Much capital moved into Germany after 1924 in the form of industrial loans. Capital may also move abroad without an accompanying migration of management through the purchase of stocks, if the amounts acquired are not sufficient to give control of the company. European purchases of many American stocks have been of this type.

In the case of direct investment, management, as well as capital, migrates across national boundaries. The foreign investor is a proprietor, not merely a lender. He may operate in a foreign country under the general business laws of the country, as does the Ford Company in Germany, Canada, and France. Or he may operate under a special concession (franchise)—that is, some privilege or right granted by the

¹E. Minost, *Le Fédéralisme Économique et les Sociétés à Charte Internationale* (Paris, 1929), pp. 91-94. In 1933 the CIDNA, as it is called, was reorganized as a subsidiary of Air France.

The Problem

government, usually implying a degree of monopoly. This type of investment is a common sort in undeveloped countries where the government is not strong or commercial law is not well adapted to industrialism. It is customary in the more advanced capitalistic countries mainly in connection with public utilities—railroads and street car lines, telegraph and telephone systems—where there is a strong element of natural monopoly. Examples: the Yalu timber concession acquired along the boundary of Korea and Manchuria by Russians shortly before the Russo-Japanese War; foreign-built railways in China; oil and mining and railway concessions in Turkey, Mexico, and South America. In those regions of the earth that industrial civilization regards as most primitive and “backward” the proprietor-investor may operate where no recognized law exists; there he sometimes imposes his own will as law and sets up a regular political administration. Examples are the “chartered companies” of Africa and Asia: the British South Africa Company, the (earlier) British East India Company. In this case, not only capital and management but also government itself may be said to constitute part of the migrating element in the foreign investment.

The distinction between migration and non-migration of management presented here is roughly the same as that between “portfolio” and “direct” investments developed by the United States Department of Commerce in its periodical estimates of American holdings abroad. Chart VII compares the geographical distribution of these two types of American investment at the end of 1930, as estimated by the Department. Direct investments in Europe were less than half as large as portfolio investments (including government bonds, of course), while in Canada and South America direct investments predominated slightly. The size of the securities holdings in Europe was largely the result of the enormous volume of German capital issues floated in the United States after 1924, and to a lesser degree to the offerings of French, Italian, Swedish, and British securities. In Asia and Oceania the

War and the Private Investor

American interest was principally in securities, while in the West Indies, Mexico, Central America, and Africa practically all of the holdings were direct investments. In general, securities holdings seem to predominate in the "older" and better-established countries, direct investments are the rule in "backward" countries, while the two types balance in countries which have undeveloped natural resources and at the same time are relatively stable politically. There are exceptions to this rule, however, notably in the case of Great Britain, where there is a striking predominance of American direct investments, probably accounted for by close cultural and business ties.¹ A recent investigation showed that direct business investments are and always have been of overwhelming importance in China. "China is probably the world's outstanding example of the preponderance of such investments." At the end of 1930 nearly 80 per cent of the total foreign investment in China was in this form, mainly in railways and shipping, the import and export business, manufacturing, and real estate, with smaller sums in banking and finance, mining, and public utilities.²

IV. *Politico-Economic Characteristics of the Capital-Receiving Area.* International investments may again be divided into three types, according to the politico-economic features of the investment field:

1. Those in the "old" countries—highly industrialized, with political systems relatively well organized and adapted to capitalistic types of economic enterprise. Examples: England, Scandinavia, the United States, France.
2. Those in "new" countries—with relatively undeveloped resources, but having Western industrial technique and relatively stable political organization of the Western capitalistic type. Examples: Argentina, Chile, Canada, Australia, the United States in the 19th century.

¹U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, "A New Estimate of American Investments Abroad," *Trade Information Bulletin* No. 767 (Washington: 1931), p. 8.

²C. F. Remer, *Foreign Investments in China* (New York, 1933), pp. 68, 86.

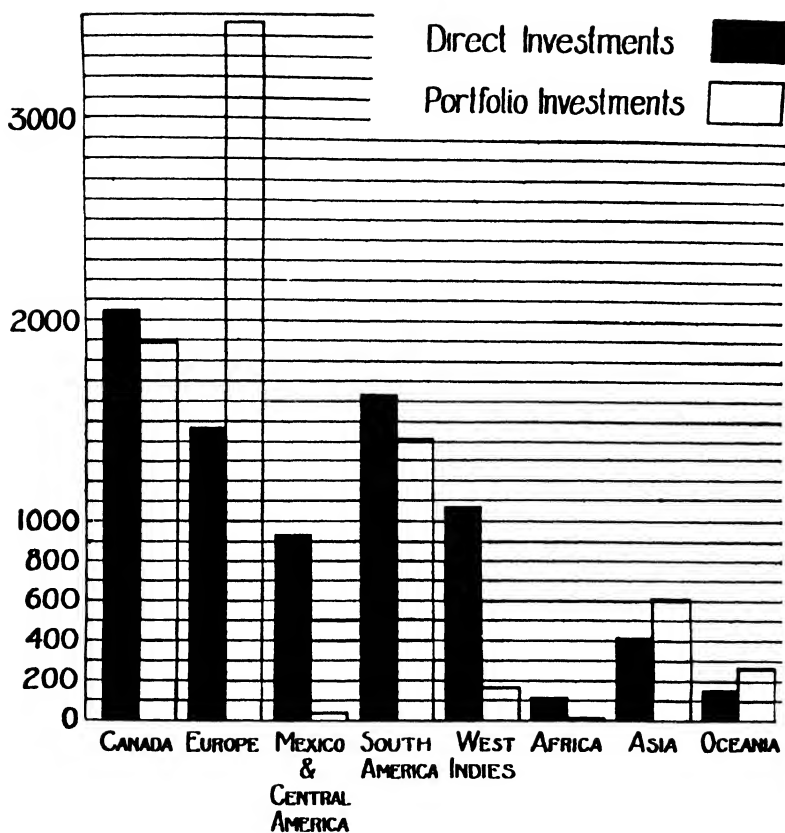


CHART VII — United States Portfolio and Direct Investments Abroad by Geographic Regions, at End of 1930

War and the Private Investor

3. Those in "backward" countries—non-industrialized, lacking techniques and political organization of the Western capitalistic type. Examples: Central Africa, some Central American countries, China, Persia.

Perhaps it is too soon yet to see clearly whether a fourth type will become a fairly common feature of international economic relations, namely, private investments in countries undergoing an avowed social revolution a) of the left, with workers' dictatorship and expropriation of private property, as in Russia, or b) of the right, with private property recognized, but subordinated to various "national purposes" by the government, as in Germany.

It seems probable that, in general, the mere amount of foreign capital invested within a country indicates little as to the likelihood of the investment becoming involved in international political trouble. Much more significant is the proportion which foreign economic enterprise bears to native enterprise, or the amount of foreign investment in relation to the general economic development of the country. Lacking any reliable objective index of the industrial advancement or economic power and productivity of all the countries in which foreign capital is invested, in the following table the estimated amount of foreign long-term capital within each country in 1929 has been divided by the total value of its exports and imports for that year, with the following interesting results:¹

Countries in which investment from abroad was a high per cent of annual foreign trade, 1929. Arranged in order from 500% (Mexico) down to 171% (Argentina).

Mexico
Bolivia

Countries in which investment from abroad was a low per cent of annual foreign trade, 1929. Arranged in order from 13% (France) up to 53% (Germany).

France
Holland

¹The estimates of foreign long-term capital within each country which appear in Appendix A (and, in part, in Chart VI of this chapter) were used, together with dollar values of imports plus exports as reported in the *Statistical Yearbook of the League of Nations, 1930-31*, pp. 172-3.

The Problem

Uruguay	United Kingdom
Brazil	Latvia
Australia	Czechoslovakia
Cuba	Italy
Canada	Switzerland
China	Chile
Persia	Jamaica
Rumania	Denmark
Peru	Austria
Guatemala	Sweden
Dominican Republic	United States
Honduras	Finland
Venezuela	Germany
Argentina	

V. *The Employment of the Investment.* It is convenient to distinguish five chief types of employment:

1. Investments primarily for trading purposes—commercial.
2. Transportation and communication investments.
3. Investments in the extractive industries.
4. Manufacturing investments.
5. Finance—banking and loan company investments.

The stores and forts of the Hudson Bay Company are examples of the first type from an earlier time. Today, the warehouses of the International Harvester Company in South America, the sales agencies of the Singer Sewing Machine Company in Japan, and the stores of rubber and copra traders in tropical lands may be cited. Trading investments are those which usually appear first in regions newly opened to exploitation. They are usually followed by transportation and communication investments—the Chinese railways, the Indo-European telegraph across Persia, aviation lines and radio telegraph stations in South America. Investments of this sort are economically important because they must come before certain other types of enterprise can be started in a country, and they are politically important not only for this same reason, but also because they have been proved to possess great strategic value in international struggles of an economic, political, or military nature. Investments in the

War and the Private Investor

extractive industries may be devoted to agriculture, stock-raising, lumbering, mining, or to the exploitation of oil wells. Examples: the plantations of the United Fruit Company in Central America, the copra plantations of the Godeffroy firm in Samoa, the timber properties of United States newspapers in Canada, foreign-owned silver mines and oil wells in Mexico. Foreign investments in manufacturing industries may be illustrated by Japanese-owned cotton mills in China or by American branch plants and industrial loans in Europe. As examples of banking and loan company operations abroad we may cite the National Bank of Haiti, owned first by French and later by American capital, the National Bank of Albania, organized by Italian banks under the auspices of their government, and the multitude of branches operated by the International Banking Corporation, the Deutsche Bank, and the Banca Commerciale throughout the world.

The tabulations of Sir George Paish¹ show that almost half of British publicly-issued foreign investments before the war were in transportation and communication—44 per cent, to be more exact—and all but a very small part of this in railways. The next largest employment of British investments at that time (30 per cent) was in loans to governments, and a considerable share of this was doubtless put into railways. Other employments were: extractive industries 10 per cent (mainly in mines, then rubber, oil, tea and coffee, and nitrates); banking, finance, and real estate 8 per cent; commercial, industrial, and manufacturing 7 per cent—of *publicly-issued* British investments abroad.

VI. *Political Characteristics of the Capital-Providing Area.* An important distinction for our purposes is that between investments emanating from the great powers—Britain, France, the United States, Germany, etc.—and investments made by citizens of lesser powers, such as Holland, Belgium, Switzerland, and the Scandinavian countries. Furthermore, the policies of the different great powers may be quite unlike among themselves either in regard to foreign investments of

¹In the *Statist*, Supplement, February 14, 1914.

The Problem

their citizens in general, or concerning investments in particular regions.

VII. *Objects Sought by the Investment.* The great bulk of international investments are made, of course, in the hope of reaping a pecuniary profit for the investor. There are investments, however, made not for profit or not wholly for profit. Such, for example, are the very important holdings of American and European churches and missionary societies in such countries as China—hospitals, schools, and the like. But there is a second type of non-profit-seeking investment quite unconnected with missionary or charitable activities which is very important to a study of the political effects of international investment. These we shall call “patriotic investments”—investments made with somewhat less than the normal regard for profit and loss, and devoted to the purpose of promoting the “higher” aspirations of a national state, such as the acquisition of new territory, the preparation of strategic military or naval bases, the opening of virgin territory for imperial expansion, or the forestalling of expansion on the part of a rival power. We may set up the following classification:

1. Investments for private profit, business only.
2. Charitable or missionary investments.
3. Patriotic investments.
 - a. Subsidized by the home government.
 - b. Stimulated by it, but not subsidized.
 - c. Stimulated by patriotic, imperialistic visions of individuals, by colonial societies, etc., but not directly by the government.

Examples of type 3a are Italian enterprises in Tripoli before the Italian conquest of 1911, French and Italian enterprises in Tunis before the French occupation of 1881, Russian timber operations on the Yalu River before the Russo-Japanese War, and the main Italian investments in Albania today. Type 3b is illustrated by certain American investments in

War and the Private Investor

the Caribbean region. The work of the British East Africa Company and the British South Africa Company, African developments fostered by German colonial societies, and explorations fostered by the Comité de l'Afrique Française may be said to be, in part, examples of type 3c.

VIII. *Successful and Unsuccessful Investments.* "Success" is here meant in the business sense. The political implications of investments which pay their own way and of others which experience defaults, repudiations, moratoria, or bankruptcies may be quite different. For example, the large foreign investments in Germany after 1924 have become an international political question because payments were first reduced and then suspended.

CHAPTER 2

Investments Entangled in Politics: Two Cases

How do the private investments described and classified in the last chapter get entangled in international politics? Why, and under what circumstances, do they become centers, or even sources, of friction between national governments? That is the central problem of the research undertaken in this book. Two concrete case studies, which will enable the reader to begin framing his own tentative answer, conclude this introductory section. The two cases are radically different in many respects. In the first, suspension of payments by a borrowing country on considerable amounts of private debt contracted abroad raises diplomatic controversy and threatens a trade war with the governments of the creditors. In the second, existing political rivalries of great powers envelop and entangle a private firm whose purely business activities happen to take place in a region of strategic importance.

THE GERMAN PRIVATE DEBTS¹

Germany emerged from the war economically exhausted, politically unsettled, and saddled with a reparations burden of which the Versailles treaty failed to mention the total amount but which was set by the London conference of 1921

¹The description of recent events in this brief sketch relies on current newspaper reports, mainly those of the *New York Times*. For a chronology of reparations and German debts, see William O. Scroggs, "German Debts and Export Bounties," *Foreign Affairs*, 12 (April, 1934), pp. 520-3.

War and the Private Investor

at the astronomical figure of 132,000,000,000 gold marks—nearly \$32,000,000,000. In 1922–23 came a breakdown in the system of reparations collections, Allied troops marched into the Ruhr industrial district, and the German economy collapsed in a disastrous inflation which depreciated the mark to the vanishing point. At this, Allied statesmen remembered the adage about not killing the goose that lays the golden eggs, called a conference of economic and financial experts, and adopted their recommendations, known as the Dawes Plan, for the rehabilitation of Germany and future administration of reparations. This was in 1924. The Dawes Plan provided for a large loan to the German government, which was used to replace the old mark by a new stabilized reichsmark; for a much reduced scale of reparations payments, increasing gradually in amount up to the fifth or standard year, after which the annual amounts would vary in accordance with an index of economic prosperity; and for an administrative organization which included a novel device known as the Transfer Committee. It was the duty of the Transfer Committee to watch over the conversion of reparations sums, raised by taxation and other means within Germany, from their original form of reichsmarks into pounds, francs, and the other currencies of the creditor countries. If such conversion on a large scale should again threaten to depreciate the German currency the Transfer Committee was to intervene, and Germany was to be held responsible only for paying over the specified sums in marks, not for converting them into foreign currencies.

Thus the Dawes Plan recognized the “transfer problem”—recognized, that is, that a country’s ability to make large foreign payments is limited by its ability to acquire surplus foreign exchange through a relative increase in sales or decrease in purchases abroad or through new borrowings abroad. Where prices and trade are reasonably free to respond to market forces without political interference there is a so-called automatic mechanism of adjustment, well known to economists, which brings it about that the sending

The Problem

of funds abroad (as for reparations payment, or in the export of capital for investment) induces a relative increase in prices abroad compared to those at home, thereby stimulates additional exports or retards imports, and thus provides the necessary additional foreign exchange. If the paths of trade are blocked by tariffs and restrictions, however, so that the readjustment of prices is not allowed to bring about a normal response in the paying country's exports and imports, or if the sums to be transferred are so large that under existing conditions they put too great a strain on the mechanism of adjustment, then continued efforts to make payments abroad simply result in bidding up the prices of foreign exchange, depreciating the paying country's currency, and, if pressed far enough, in utter economic collapse. That is what happened in Germany in 1923, and that is what the transfer provisions of the Dawes Plan were designed to prevent in the future.

Under the first aid of the Dawes Plan, German economy revived, the scheduled reparations payments of the Plan were made punctually and without apparent strain for a number of years, and then a new conference of experts assembled to reach a "definitive" settlement—for the demands of 1921 were everywhere seen to be ridiculous, and the Dawes Plan had not set Germany's total obligation. Meeting in 1929—fateful year!—the delegates found the world economic outlook bright indeed, so they drew up a schedule of payments extending over 59 years, instituted the Bank for International Settlements to act as trustee in these transactions, and abolished the administrative mechanism of the Dawes Plan, including the Transfer Committee. Some transfer protection was retained, however, in provisions for partial and temporary postponement of payments under certain conditions. This definitive settlement was just in time for the world depression, and two years later the whole reparations structure had collapsed. In the summer of 1931 a financial crisis in central Europe which threatened to spread disastrously over the world led President Hoover to suggest a

War and the Private Investor

one-year moratorium on all inter-governmental debts, including reparations. In July, 1932, a conference at Lausanne practically wiped the reparations slate clean with an agreement that one final payment of three billion reichsmarks would end Germany's obligation.

Now we come to the German private debts. After 1924, when German economy made a vigorous recovery, there was a tremendous demand for capital in Germany to rehabilitate factories and to carry through all sorts of private and public projects that had been neglected during the war and the inflation. German technical and business skill was of a sort to inspire confidence on the part of lenders, and interest rates were extremely attractive, due to the depletion of domestic capital resources and also to the price forces set in motion by reparations payments. Under these conditions foreign capital moved in eagerly and rapidly, as shown in the following table:

LONG-TERM FOREIGN LOANS IN GERMANY¹

(Millions of Dollars)

	December 1924	December 1927	June 1930
Industry, trade, transportation, banking . . .	10.0	511.4	840.9
Mortgages		166.8	244.7
Reich government	223.7	210.2	538.2
Provincial and municipal government and certain associations		261.3	313.2
Churches		21.8	36.6
Total	233.7	1,171.6	1,973.6

In addition, there were large short-term credits extended to German banks and business enterprises, and a considerable amount of direct investment took place through purchase of real estate and factories, through acquisition of shares in

¹*Wirtschaft und Statistik*, published by the Reich Statistical Office, Vol. 10 (November, 1930), pp. 891-2. Reichsmark figures have been converted into dollars at \$0.238 to the mark.

The Problem

German undertakings, and through establishment of branch plants. The total picture at the end of September, 1930, was about as follows:

FOREIGN HOLDINGS IN GERMANY¹

Short-term loans	2,700 million dollars		
Long-term loans	2,200	"	"
Shares and affiliates	950	"	"
Real estate	480	"	"
Total	6,330	"	"

Until the economic and political crises which came in the train of the world depression, the private loans and other investments of foreigners in Germany had no direct connection with international diplomacy. They were non-political transactions between private parties. There was no suggestion that foreign property in Germany was menaced by bandits or that it needed diplomatic protection against acts of the government itself, nor was there any likelihood that a foreign state could seriously think of using private investments in Germany as a tool of political penetration and conquest. Germany was no "backward" country. Nevertheless, these private investments did eventually occupy the diplomats and add to international controversy.

In August, 1931, a few months after the Hoover moratorium on inter-governmental payments had begun, foreign bankers who held extensive short-term credits in Germany conferred under the auspices of the Bank for International Settlements at Basle and agreed to a six months' moratorium on these loans. It was recognized that in the acute situation then existing a precipitate withdrawal of credits would have brought the whole German financial structure toppling. This first so-called "standstill" agreement was renewed and extended at subsequent conferences in the following years. So reparations payments had ceased and short-term credits were frozen when, on June 9, 1933, the German government

¹*Ibid.*

War and the Private Investor

decreed a transfer moratorium of six months on all public and private debts contracted before July, 1931, except those covered by the "standstill" agreement. This decree was shortly modified to exclude from the moratorium the Dawes Plan loan of 1924 and the Young Plan loan of 1930 to the German Reich, both of which had priority rights guaranteed in international treaties, and to provide for a 50 per cent cash payment of the amounts due on the other loans. The remaining 50 per cent was to be paid in scrip, redeemable in cash at half of its face value. Thus, the creditors would actually receive 75 per cent of their interest.

The "transfer moratorium" on private debts had more than its name as a heritage of reparations. It was the enormous influx of foreign capital into Germany after 1924 which had enabled the Dawes Plan annuities to be met with so little strain. Outsiders putting funds into Germany for investment provided more than enough foreign exchange to balance the outpayments on reparations account, and while the German government met its obligations abroad the German economy as a whole was merely paying one external debt with another—replacing a reparations debt by private commercial debts. This met the transfer problem for the time being, by postponing the day of reckoning. That day came when the world depression stopped the flow of new capital into Germany and the obligations already incurred began to fall due. Henceforth, though reparations payments ceased to exist, a new transfer problem attached itself to private obligations abroad, and under the most unfavorable circumstances, illustrated by a decline in international trade which brought German exports from 12 billion marks in 1930 to 4.8 billion marks in 1933. With the gold holdings of the Reichsbank rapidly moving downward, the German government determined to prevent a new currency collapse at all hazards and intervened to supervise the payment of foreign obligations. The government insisted that the question was one of transfer and that there was no repudiation of the private obligations involved; it emphasized that the private debtors

The Problem

—individuals, corporations, government bodies—must pay their full obligations regularly in reichsmarks into a Conversion Office which, under the guidance of the Reichsbank, would then determine how much could safely be transferred into foreign currencies. From the standpoint of the outside investor, of course, the loss was the same as though the private debtor had defaulted. The difference was that the loss resulted from the action of the government in controlling the exchanges, so that in bargaining for payment the creditor was confronted by the German government. Naturally, he sought and received the assistance of his own government. Thus, private investments in Germany became an international political question.

The reduction of long-term debt transfers begun in June, 1933, led to a whole series of conferences with creditors' representatives and bargains with their governments. The citizens of Switzerland and Holland, next to those of the United States, had together made the largest long-term investments in Germany, and their governments were in a particularly strong bargaining position because these countries imported more from Germany than they exported to Germany—an advantage in a trade war. They could threaten to impose a clearing system on the payments due from Swiss and Dutch importers to German exporters. Germany made a special agreement to continue 100 per cent service on Swiss and Dutch loans, in exchange for "additional" purchases of German products—a discrimination which occasioned more than one vigorous diplomatic protest from the governments of the other creditors, notably the United States and Great Britain.

In December, 1933, at a conference in Berlin, the creditors tried in vain to increase the transfer quota. Dr. Schacht, president of the Reichsbank, announced instead that during the first six months of 1934 cash transfers on long-term debts would be only 30 per cent of the amounts due, with the balance in scrip worth half its face value. A new conference in January resulted in an agreement under which the scrip

War and the Private Investor

would be redeemed at 67 per cent of its face value, making the net payment to the creditors 76.9 per cent instead of the previous 75 per cent. It was also agreed that the discriminatory agreements with Holland and Switzerland would end at the middle of the year and not be renewed. There was a new general conference in April, and after weeks of difficulty, including conflicts among the creditor groups (the British, for example, were more interested in the Dawes and Young loans and the short-term credits, while the Americans held the largest share of the long-term debts), a compromise resulted which satisfied nobody. Its exact terms proved unimportant, for on June 14, 1934, Dr. Schacht announced a moratorium on all German foreign debts, and the German finance minister informed the Bank for International Settlements that payments on the Dawes and Young loans would also be suspended. This resulted in immediate diplomatic protests, especially from the United States, which continued to emphasize the issue of discrimination among the creditors, and from Great Britain, which objected particularly to suspension of the Dawes and Young loan payments and threatened to introduce a clearing system to collect the debt service out of sums due by English importers to German exporters. The British parliament quickly voted a bill giving this authority to the government. Dr. Schacht spoke threateningly of reprisals, and for a time a trade war seemed imminent. Negotiations proceeded, however; Germany receded from its position on the Dawes and Young loans, and a payment agreement which established British creditors in a relatively favored position was concluded in September, 1934. There were also individual agreements with other creditor countries, but Dr. Schacht continued to assert in public speeches that Germany must have a complete moratorium on all debt payments for several years. In bi-lateral negotiations the official German thesis seemed to be that each separate creditor country could reasonably expect transfer of the debt services due its citizens only in case it provided the means of payment itself in the form of a passive trade balance with

The Problem

Germany, and this placed the United States, with its active balance in German trade, at a decided disadvantage. On April 19, 1935, the United States government announced a vigorous diplomatic protest against the tender of interest payments on Dawes loan bonds to American holders in the form of registered reichsmarks, which could be taken out of Germany only at a heavy loss, while citizens of other countries were being paid in full. As this chapter goes to press the German private debt question appears to be as far from solution as ever, and the only safe prophecy is that it is sure to be troublesome.

Several other complicating factors should be mentioned. The policy of the National Socialist regime after Hitler's rise to power in January, 1933, antagonized large sections of world opinion and thereby prepared the way for resentment and imputations of bad faith on the debt issue. This world antagonism likewise expressed itself in a boycott of German goods, which certainly did not help Germany to build up the export surplus necessary to transfer its foreign debt. Furthermore, there was strong resentment among creditor groups when the fact was brought out that large quantities of German bonds had been repurchased at bargain prices and returned to Germany. The creditors charged that the German government had depreciated the market value of its own bonds by protesting that they could not be paid, and then had bought them at a discount with funds that should have gone for interest to the bondholders. Great Britain and the United States gave attention to this aspect of the matter in their diplomatic representations. The bond buying process also formed part of an ingenious scheme whereby German exporters were allowed to acquire bonds, or the depreciated scrip issued in payment of interest, at low prices and to re-sell them to the government for their full value in reichsmarks. This was a method of subsidizing exports, and it, too, caused indignation in some circles abroad, though Dr. Schacht rightly insisted that either foreign bondholders must forego their money or the outside world must take more German

War and the Private Investor

exports. He also linked the question of Germany's ability to pay foreign debts with loss of colonies and other features of the Versailles treaty. The press in creditor countries has bitterly complained that while the German government claims it cannot risk the transfer of funds abroad to pay bondholders, it has been able to find considerable quantities of foreign exchange with which to buy materials needed in rearming. All these side-issues reveal how intricately what were once mere private transactions between German borrowers and foreign lenders have become entangled in the skeins of international politics.

THE STORY OF THE WÖNCKHAUS FIRM

The second case study introductory to our investigation of investments in politics illustrates how a private enterprise in a disputed region can come to be a focal point of international conflict. It begins in the decade of the 1890's with an energetic young man named Robert Wönckhaus, a German, who worked for a Hamburg firm in Zanzibar on the east coast of Africa.¹ Native dhows plied regularly between Zanzibar and the Persian Gulf, taking up cargoes of slaves to serve as pearl-divers and bringing back products of the region. Among other things, they once returned with mother-of-pearl shells, practically as ballast. These shells were bought by the Hamburg firm, shipped to Europe, and sold at a handsome profit. Wönckhaus had heard that such shells were thrown away as valueless in the Gulf; he decided to go up there and see what could be done with them. This was in 1897, and "Robert Wönckhaus and Company" appeared soon afterward at Lingah.

Many accounts have been published of the moves on the political chessboard and the worries of diplomats concerning that strategic area of the Middle East to which young Wönckhaus went. The Historical Section of the British

¹The story as here presented is condensed, with permission of the editors, from my article, "Business and Politics in the Persian Gulf: The Story of the Wönckhaus Firm," *Political Science Quarterly*, 48 (September, 1933), 367-85.

The Problem

Foreign Office has called it "one of the principal theatres of British and German rivalry before the war."¹ For England, the Persian Gulf was one of the routes to India where compelling reasons of imperial defense dictated that no other power should ever have a foothold. German political interests, about the time Wönckhaus established his business, were only beginning to extend through Asiatic Turkey along the line of the proposed Bagdad Railway. Around 1900, it was Russia whose advance in the direction of the Gulf most worried British statesmen. Lord Curzon had written in his book on *Persia and the Persian Question* that he would impeach as a traitor to his country any British minister who might allow Russia to establish a station on the Persian Gulf. His vigorous action as Viceroy of India when France sought to lease a coaling station at Muscat and again when German plans for the Bagdad Railway pointed toward a terminus at Koweit showed that he was resolutely opposed to admitting any other power whatever to a stake in the region. Lord Lansdowne, the foreign minister, announced to the world in 1903 that "we should regard the establishment of a naval base or of a fortified port in the Persian Gulf by any other Power as a very grave menace to British interests, and we should certainly resist it with all the means at our disposal."²

The concrete experiences of a private business man against the political background of this region throw into sharp relief certain phases of the interaction between private enterprise and international politics. The story to be related, largely on the basis of first-hand testimony from Mr. Wönckhaus so far as the activities of his firm are concerned,³ shows how a legitimate business with no political intentions becomes en-

¹In its *Peace Conference Handbook* on the Persian Gulf.

²See the article cited above for additional details and full citations.

³Personal interview with Mr. Wönckhaus, Hamburg, 1931. He was good enough afterward to read over and correct a typewritten memorandum of the long conversation. His statements have been checked against documents wherever possible, and in every case found accurate; my judgment is that his story deserves full credence.

War and the Private Investor

meshed in the suspicion and traditional rivalry between nations, takes on political importance, whether it will or not, and finally comes to grief in the cataclysm precipitated, in part, at least, by the results of practices which nations proudly regard as "protecting" just such enterprises of their citizens.

In view of the subsequent belief among the English, French, and Russians in the Gulf that he had been sent there with a subsidy from the German government, it is important to emphasize that Wönckhaus came in 1897 almost by accident. "I was completely disassociated from all political aims and all connections with the German or any other government," he says. "Nobody knew about me in Berlin; no one in Germany knew about the founding of my firm. It was purely a private, commercial enterprise, and of course I didn't go about advertising my plans." Nevertheless, as the firm prospered and developed in this focal point of imperial policies it inevitably took on a political importance. The first recognition of this fact came from the Russians. About 1899 Russia decided to pay more attention to what was passing in Persian Gulf ports. First she sent out travelers and warships, then opened consulates and trading posts, and soon organized a subsidized maritime service between Odessa and the Gulf. Several governments were establishing consulates along the Gulf about this time, but that of Russia at Bushire was particularly pretentious and well equipped, although there were no Russians in the region. The Russian government was trying its best to construct out of whole cloth a commercial interest which could be pointed to as justification for demanding that England discuss Persian Gulf questions with her. "An officer of the Russian Volunteer Fleet, Gorski," says Mr. Wönckhaus, "was sent into the region to build up a Russian trade. He was paid, of course, by the Russian government, and the whole campaign was a government enterprise. It failed, because from start to finish it was such an artificial construction. They shipped in sugar, for instance, for which there was no market, and most of the business they did was conducted at a loss."

The Problem

“Under these circumstances,” [Mr. Wönckhaus continues] “the Russian Consul-General, Nicholas Pasek, with whom I was on very good personal terms, came to me. He asked me to take over the Russian trading interests in the Persian Gulf and to build them up through my business connections there, which by this time were quite extensive. I was given to understand that the job would be well paid and would be practically a sinecure. I refused, because I wanted to manage my own business without having to report to anyone and because, after all, though I have never been a chauvinist, I felt myself a German and was not particularly attracted by the idea of working for Russian national ambitions.

“Some time later, presumably after receipt of instructions from Petersburg, Pasek approached me again. This time he said, ‘We are really very much in earnest about this offer we made you; it is a matter of great importance to us. Our trading people are getting nowhere, whereas you started a few years ago with nothing and have built up a business and connections which make the English firms fear you. If you will agree to represent Russian trade you can name your own terms, and when I say your own terms I mean exactly that—any terms you want. We are determined to have Russian economic interests in the Gulf and we are willing to pay for them.’”

Again Mr. Wönckhaus refused.

The English in the Gulf at the time, from the Political Resident down to the clerks of commercial houses, believed that the Wönckhaus firm was not merely an energetic business rival but a direct representative of German political imperialism. That its rapid expansion and prosperity were explained by a subsidy from Berlin was considered a matter of universal knowledge.¹ “The real grounds for my success, which was inexplicable to the English except on the supposition of a subsidy, were simple enough,” Mr. Wönckhaus

¹This notion found expression in such serious historical writings as Sir Percy Sykes' *A History of Persia* (2d ed., 1921, Vol. II, pp. 431–33). *The Times History of the War*, published by the *London Times* while hostilities were in progress, contains a chapter which goes into the history of the Persian Gulf in considerable detail and devotes much attention to the activities of the Wönckhaus firm. Its value as unbiased historical narrative is, of course, nil, for it suffers from the distortion common to war-time propaganda, but it was evidently written by a very well-informed person and is not unindicative of the views held by colonial zealots before and during the war. It attributes to the Germans deep-laid plans to upset the British position in the Gulf and then interprets everything in that light. The more trivial

War and the Private Investor

relates. "My people and I worked harder than they. My market information from Europe was usually about a day ahead of that of other firms. I applied myself to the language and learned to speak Persian fluently. I maintained close contact with the natives and had native buyers gathering wheat and barley—our chief exports—in the cheapest markets, inland, not just along the coast. Furthermore, I think I knew my wares better than my competitors. Finally, I was the chief of my own firm, while the English commercial community was made up mostly of subordinates employed by firms with headquarters in London; I could make important decisions on the spot, adapt myself to new conditions, close a contract immediately, while they had to consult London."

The suspicions of British agents against the Wönckhaus firm were strengthened by their growing concern over manifestations of German political and economic interest in nearby regions. The grandiose Bagdad Railway project, planned and financed under the leadership of the Deutsche Bank, carried forward with the enthusiastic coöperation of the Kaiser and the German Foreign Office, was being hailed by publicists (to the annoyance of those in charge of its execution) as a potential threat to other powers, as well as a symbol of Germany's rising prestige. A tendency of German foreign policy to foster commercial interests in Persia proper (in order to create a stake in Persian diplomacy which could be traded for the removal of Russian obstruction to the Bagdad Railway program) did nothing to lessen British apprehension. Whether he wished it or not, the business carried on by Mr. Wönckhaus inevitably acquired a political importance as it grew. Markedly successful, he became known up and down the Gulf, and his agents were everywhere. Such a or innocent the German activities, therefore, the more insidious. Thus, Germany "quietly established a vice-consulate at Bushire." Wönckhaus and his agents "talked of commerce, but they surreptitiously sought at various points to obtain a territorial footing." The Wönckhaus firm rapidly blossomed into a large and widespread enterprise, established headquarters at Bahrein and opened a new branch at Basra. "The whole Gulf wondered where the money came from. It certainly was never obtained from profits." The "vigilance of the British representatives on the spot foiled the German efforts at every turn."

The Problem

development in such a region was bound to have repercussions on European politics.

Mr. Wönckhaus explains how political significance came to be attached to his business as follows: "Orientals are impressed by force, by power," he says. "They saw me come to the Gulf with nothing at all. They knew me, because I took pains to cultivate good relations with the natives. Then they saw my business grow and saw me get the better of English firms in a number of commodities. They saw my success and the Russian unsuccess. Knowing nothing of European conditions, the power of European nations was typified to them by the citizens of these nations in the Gulf; in fact, they called me in their language 'Germany.' As my business won out over my competitors the natives began to lose some of their fear of England and Russia, and these nations henceforth found it less easy to manage things according to their will. Sometimes native people of great local importance even came to me and asked if I could not have them put under the protection of the German government in order to interpose a shield between them and the English and Russians. I never accepted or encouraged such offers, said nothing about them to the German consulate, and wrote not a line to Berlin. Nevertheless, the other Europeans, especially the English, believed that such incidental results explained the real motives for my presence in the Gulf. In fairness to the English I ought to say that it must have seemed so to them, looking on from the outside. The effect of the Kaiser's foolish speeches at home—his 'mailed fist' speech to the departing troops at the time of the Boxer uprising, his talk of world empire, and the like—was to heighten this suspicion of my activities.¹

"Suspicious as my activities may have seemed to the English," continues Mr. Wönckhaus, "the facts are, none the less, that they

¹At Hamburg in 1901 the Kaiser alluded in a public speech to the rôle which Hansa traders might play in expanding the Empire. "As head of the Empire, I rejoice at the departure of each new Hanseate . . . who goes out to foreign parts, looking with his keen, unbiased eye for new points where we may hammer in a nail on which to hang our armor." (Klaussmann, *The Kaiser's Speeches*, transl. Schierer

War and the Private Investor

were of a purely business nature. The German government not only did not support me or subsidize me, but even the legitimate assistance and protection which I might have expected was not always forthcoming. That diplomatic circles in Petersburg, London and Paris discussed my firm and said that the German government was following a far-sighted policy in the Persian Gulf was not my fault. I did nothing to deny these rumors, but a contradiction from me would have changed no one's opinion, and anyway, the belief that my firm was backed by the government increased my credit and prestige in certain quarters."

It was in 1906, partly at the instigation of Mr. Wönckhaus, that the Hamburg-American Line actually established a regular service to the Persian Gulf. The Wönckhaus firm became the agent of the steamship company. The welcome that had been accorded earlier plans of Albert Ballin, Director of the Hamburg-American Line and friend of the Kaiser, for such a service showed a decided interest on the part of the German government in that region at the far terminus of the Bagdad Railway. The assertion often encountered in English sources, however, that the Hamburg America Line received a substantial subsidy for its Persian Gulf service is untrue. Mr. Wönckhaus, who was connected with all the negotiations, denies it categorically, and other evidence confirms his statement.¹ The new line and the Wönckhaus firm handled shipments for the construction of a portion of the Bagdad Railway.

"Sometime later," [continues Mr. Wönckhaus] "probably about 1911, I became Honorary Consul, without pay, representing the German government in Basra. The consulate at Bagdad had recently been established, and the request to me to take charge of the new consulate at Basra came from there. At first I refused. I have never wanted to be a subordinate to anyone; I wanted to run brand [New York, 1903], p. 252). Living in the Persian Gulf among foreigners of many nationalities, says Mr. Wönckhaus, he was in a good position to observe the effect of such speeches upon the outside world. They did much damage and multiplied the difficulties of German merchants. A similar effect resulted from the writings of bombastic nationalists like Rohrbach, whom Mr. Wönckhaus denominates "charlatans" and "troublemakers."

¹See the article cited above for details.

The Problem

my business and to be completely independent. A second request came, and I refused again. Only at the third request, when it was strongly urged upon me that this was my duty as a German, did I accept, and then only on the specific, written understanding that I was never required to make a report. So far as I know, there was never an exchange of telegrams between the consulate in Basra and the German government."

As stated in the House of Lords by Lord Lansdowne, British policy did not include efforts directed toward the exclusion of the legitimate trade of other powers in the Gulf. It is apparent, however, that the imperial representatives on the spot were inclined to exceed, in their zeal, the official, correct attitude stated in London. It is usually the case, in fact, that political agents in outlying territories chafe at the restraints imposed upon them by a home government which, in their view, almost always shows too much concern for the opinion of rival powers. Consuls of empire tend to favor strong measures, and so it was in this case. A man who has had a distinguished record in the British political service and who was Consul General at Bushire after 1904, then Political Resident in the Persian Gulf from 1909 until 1914, Sir Percy Cox, is proud of a dispatch written by the German consul, Wassmuss, on the occasion of Sir Percy's transfer to India. His going, wrote the German consul, would be a boon to German trade. In personal relations there was no cause of complaint, but as Political Resident he conceived it to be his duty to do all in his power to hamper the commerce of Germans, for he knew that in this region of weak administration commerce must involve political support. He "saw his ambition to make the Persian Gulf an exclusively English sea endangered by every shipload of barley and every ton of oxide exported" by German firms. This statement of the German consul, affirms Sir Percy, is not only an accurate summary of his point of view as Political Resident but puts it, in fact, quite well.¹

In the eyes of English officials, anything undertaken by a

¹Personal interview with Sir Percy Cox in London, 1931.

War and the Private Investor

foreign power or its nationals in the Persian Gulf had political importance. It is easy to understand, then, why they resisted with particular vigor every attempt by Germans to secure concessions which might have had the effect of settling them permanently on a bit of Gulf territory. When the first intimations came that Germany might attempt to secure facilities at Koweit for a Persian Gulf terminus of the Bagdad Railway, and when rumors of a Russian railway concession from Tripoli in Syria to Koweit were abroad, the British government acted promptly and drastically, negotiating treaties with native Sheikhs and putting gunboat pressure on Turkey. Sometime later the Wönckhaus firm tried to obtain from an Arab Sheikh rights to pearl fisheries in the neighborhood of Bahrein; this was prevented by the English. Thereupon negotiations are said to have begun in Constantinople for pearl-fishing concessions and for the lease of Halul Island, a center of the industry. Again England intervened, fearing that the island might ultimately be used as a coaling station. A further incident, which could easily have attained major importance, occurred on the island of Abu Musa.

An English firm, F. C. Strick and Company, had contracted for and was working a deposit of iron oxide on an island called Ormuz. Mr. Wönckhaus looked about and found a similar deposit, not quite as good, but worth working, on the nearby island of Abu Musa. The Sheikh of Shargah, whose territory it was, had conceded to three Arabs the right to exploit the iron oxide of Abu Musa, and in 1906 two of them transferred their rights to the Wönckhaus firm, which then prepared to start operations. At this stage the Sheikh canceled the concession, influenced by the English, who had a treaty dating from 1892 with him and other Arab chieftains to the effect that he would enter into no relations with any government but that of Great Britain and would dispose of none of his land to any other power. A French vice-consul who was in the region at the time writes that the red-oxide of Abu Musa would have made an ideal freight for the steamers of the Hamburg America Line, which arrived in the

The Problem

Gulf laden with construction material destined for the last section of the Bagdad Railway but lacked return cargoes. This was one reason why the English were determined to prevent Wönckhaus from exploiting the deposits. There may have been more weighty reasons, however, including the apprehension that if Abu Musa proved to be commercially valuable claims to sovereignty might be made by Persia.

The Wönckhaus firm took no notice of the Sheikh's revocation of the concession. In October, 1907, the British warship *Lapwing* appeared at Abu Musa towing a number of sailing boats laden with three hundred of the Sheikh's armed followers. The warriors disembarked, seized the workers employed by Wönckhaus, and removed them to Lingah. Two hours later, when a representative of Wönckhaus arrived, he was fired upon, but luckily not killed, by these same native warriors.

There was a cry of indignation in the German press. The *Neuste Nachrichten* spoke of the "incomprehensible violation of German rights." The *Berliner Tageblatt* announced that Great Britain was trying to undermine German prestige and to demonstrate her own supremacy. It said that the English "seem to have had the intention to show Germany that she can do nothing in the Middle East without Great Britain's consent," and declared that "commerce and politics can no longer be divided." Germany could only attain commercial success by "energetic political action." Mr. Wönckhaus protested to the German government, which passed on his protest to the British government through the Embassy in London. According to Mr. Wönckhaus, however, the German Foreign Office induced him to lower his claims for compensation below the amount to which he believed himself justly entitled, made his original protest much milder, and did not press the matter so energetically as he should have liked. The question dragged on, was postponed and repostponed, until finally some months before the outbreak of the war the British government agreed in principle that Wönckhaus was

War and the Private Investor

entitled to compensation. The determination of the actual amount was further postponed. Then the war came, and in the end he received no compensation at all.¹

This was not the worst that the war did to the Wönckhaus firm, of course. German enterprises were driven out of the Gulf by the British. The records of the firm were seized, and this, incidentally, added a weighty confirmation to the personal testimony of Mr. Wönckhaus regarding the non-political nature of his firm's activities. An officer of the British army on the scene has recently written that suspicions regarding Wönckhaus were proved unfounded when "a careful examination of the voluminous records of the firm's various branches lent no colour whatever to the supposition that its objects were other than commercial."²

Like a host of other business men scattered over the face of the earth, Wönckhaus seems to have been interested in doing a profitable business, expanding his firm, becoming a great merchant—not in politics. Why, then, did he eventually find his enterprise regarded as a "politico-commercial" institution, and why was it involved in one of the many international conflicts that led up to the World War? Why did his business operations help to make the Persian Gulf "one of the principal theatres of British and German rivalry before the war," and why did they have a small part, though an unintentional part, in the causes which set the world aflame? To understand the processes involved in such situ-

¹Interview with Mr. Wönckhaus. At the India Office in London (which handles the political affairs of the Persian Gulf) I was informed that the papers on the Abu Musa affair cannot be made available, but an official very kindly volunteered to look them through and to answer what questions he could without violating official discretion. His impression from a reading of the documents was that Germany had done everything proper in pushing the claim and had not been at all soft about it. Some sort of a compromise seems to have been reached just before the war, Mr. Wönckhaus claiming he ought to have compensation at least for the iron oxide he had already mined and lost. The official who looked at the documents agreed that to accept the version given by Mr. Wönckhaus and used above in the text "would not be far off the mark." The Abu Musa affair is not mentioned in the collection of *British Documents on the Origins of the War* nor in *Die Grosse Politik*.

²Lt. Col. Sir Arnold T. Wilson, *Loyalties, Mesopotamia 1914-1917, A Personal and Historical Record* (Oxford University Press, 1930), pp. 74 ff.

The Problem

ations, to analyze them into their elements, is the object of this book. On the basis of that understanding, to design and apply intelligent measures for the minimization of similar international conflicts is the political problem of international private investments.

PART I: PRIVATE INVESTMENTS AND DIPLOMACY

A. INVESTMENTS SERVE DIPLOMACY

CHAPTER 3

Type Cases: Yalu, Tripoli

Is it strange to begin the systematic analysis of relations between private investment and diplomacy with chapters on the use of investments by diplomacy as tools or instruments of foreign policy? Not if one has studied the actual cases of international friction over private foreign investments. Despite widespread beliefs and convincing theories to the contrary, private foreign investments are found much more frequently as tools of diplomacy than as instigators of diplomatic action in those cases of international friction over foreign investments which may be classified as dangerous (that is, more than mere altercations, but likely to lead toward war, especially to a big war between major powers). This is not a critique of "the economic interpretation of history." The foreign policy of which private investments have become the tools in these cases may have been determined wholly or in part by "economic" factors. That can be debated pro or con; it is not debated here. What does not seem to be arguable, however, on the basis of careful observation of these phenomena in the real world, is that with respect to the *immediate* relation of private investments to diplomacy the private investments figure most frequently (not exclusively) in cases of dangerous international friction as servants, rather than as masters.

One is pressed to this conclusion particularly when he turns

War and the Private Investor

to the minute investigation of several cases which have been widely cited to illustrate how private investments initiate causes of war, and these cases turn out instead to have been flagrant examples of investments pressed into service for political ends. Two such cases follow.

YALU INVESTMENTS AND THE RUSSO-JAPANESE WAR

"The Japanese-Russian War, it is now admitted, was largely the result of the clamor of financial interests seeking to exploit Manchuria," says a commentator on the economic causes of modern war,¹ and many others have endorsed this view. Specifically, influential persons interested in timber enterprises on the Yalu River, part of the boundary between Manchuria and Korea, are alleged to have performed the double mischief of urging on the government of the Tsar and alarming the Japanese. In the words of another writer who strongly emphasizes the direct financial causation of international conflict:

These memoirs [of General Kuropatkin] show that all the Ministers of the Tsar, Count Lamsdorf (Foreign Secretary), M. Witte (Minister of Finance), and General Kuropatkin (Minister of War) were sincerely disposed to evacuate Manchuria, and no less opposed to any advance towards the Yalu River and Korea. They failed, because the timber enterprise, which was the attraction of the Yalu district, was a court venture. These wealthy forests, made over to a Russian promoter in 1896, when the Emperor of Korea was a fugitive in the Russian Legation at Seoul, had passed into the hands of a courtier named Bezobrazoff, an intimate of the Grand Dukes, the Dowager-Empress and the Tsar. The company which he formed to work his concession had several of these people among its shareholders, and there is little doubt that the Tsar himself was interested to the extent of £200,000. Admiral Alexeieff, a creature of Bezobrazoff's, sent to the Far East as Viceroy, overruled the Ministers at home, and conducted the timber enterprise as an Imperial undertaking. It was neither the Russian people nor the Russian bureaucracy which had determined to keep the Yalu district and to fight Japan for its possession. The resolution to possess

¹F. C. Howe, in *Annals of American Academy of Political and Social Science*, LXVIII (November, 1916), 318.

Private Investments and Diplomacy

it came from a little group of interested courtiers, who were using the natural resources to further their private financial ends.¹

Now it is true that a little clique of influential courtiers worked for an aggressive policy in the East, contrary to the better judgment of Witte and other ministers, and it is true that this Bezobrazoff group was interested in forestry concessions on the Yalu. Yet to conclude that the desire for the aggressive policy was born of a desire "to further their private financial ends" is putting the cart before the horse. Actually, the "economic" enterprise was set up in order to forward a policy of imperial expansion in the Far East which the group already favored, and far from shaping political events to insure private gain, the members seem to have cheerfully contemplated some economic loss for the attainment of their political objectives.

The early history of the Yalu enterprise is essential to an understanding of its activities.² In 1896 a Russian merchant named Brinner secured a concession from the Korean government to exploit the timber tracts along the Tumen and Yalu rivers. As a result of the Russian withdrawal from activity in that region he decided to sell his rights to international interests headed by Rothstein, a son-in-law of one of the Rothschilds. The news leaked out, and a small group composed of Matiunin, just appointed Russian Minister to Korea, Vonliarliarski, a well known developer, and later Bezobrazoff, a retired officer and state councillor,³ resolved to save the project and use it for the expansion of Russian

¹H. N. Brailsford, *The War of Steel and Gold* (London, 9th edn., 1917), pp. 51-2. Harold J. Laski, "The Economic Foundations of Peace," in *The Intelligent Man's Way to Prevent War* (ed., Leonard Woolf, London, 1933), pp. 507-8, says: "The Russo-Japanese War was, in the last analysis, the outcome of an endeavour by a corrupt Government to defend the immense timber concessions in Manchuria of a little band of dubious courtiers."

²I rely in what follows mainly upon William L. Langer's scholarly investigation into the origins of the Russo-Japanese War, published in German in *Europäische Gespräche* (Hamburg), IV (June, 1926), pp. 279-322. My account is based on the original English manuscript, which I had the privilege of consulting.

³Bezobrazoff is said to have led an adventurous life in Siberia after his retirement from the Guards. Izvolsky described him as "un personnage burlesque et à moitié fou" who won such an influence over the Tsar that he and his clique shortly had

War and the Private Investor

interests which official Russia was giving up. In February, 1898, after an unsuccessful attempt to interest Muraviev, the Minister of Foreign Affairs, this group turned to the Tsar himself. They proposed the establishment of an East Asiatic Company, "guided by the august will of the Russian Emperor," which would serve as a political instrument, probably in the manner of the British chartered companies then being so assiduously but artificially imitated by the imperialists of France and Germany as well as Russia.¹ The promoters claimed that the plan would soon enable Russia to obtain complete control of Korea, and it was proposed to have representatives of the company enter the Korean service. The enterprise, however, would require stockholders "who would not demand immediate dividends" and who would be prepared to "render a service to the Tsar." American and other capital might be taken in to act as a screen. A conflict with Japan could be avoided by "granting her certain material advantages in Korea with the help of the company." Above all, "our fighting vanguard, up to 20,000 men, disguised as lumbermen," could be deployed on the area covered by the concession under pretense of economic exploitation.²

Thus the "economic" enterprise on the Yalu was conceived! The Grand Duke Alexander Michailovich and other influential persons became interested. The Tsar was much impressed by the possibility of saving Korea for Russia, and it was decided to acquire the concession from Brinner, Privy Councillor Neporoshnov acting as go-between. In June, 1898, an expedition financed by Imperial Cabinet funds set out for northern Korea under the command of Neporoshnov. It was armed with instructions from Baron Fredericks, who had been ordered to participate "in a private way, as the Emperor's man of confidence." The War Department sent along

not only the direction of the politico-economic enterprise on the Yalu but the whole conduct of diplomatic relations with Japan in their hands. O. Franke, *Die Grossmächte in Ostasien* (Hamburg, 1923), p. 223.

¹Cf. the discussion of chartered companies in Ch. 11.

²Langer, *op. cit.*, pp. 290-91, in the *Europäische Gespräche*. For documentation the reader is referred directly to this article.

Private Investments and Diplomacy

an officer to make surveys, and Muraviev was told frankly that the expedition was pursuing "political ends." It drew up military, economic, and climatic descriptions of northern Korea, surveyed large areas, studied possible railroad routes, made certain that the population was not hostile and that the Japanese had not yet arrived, and in addition, nearly succeeded in persuading the Emperor of Korea to grant a concession for the exploitation of the Cabinet lands and the mineral resources of his country. But despite this auspicious beginning the project had to be dropped for the time being. The opposition of Finance Minister Witte, who stood for a more moderate policy in the Far East at this stage and who had not even been informed of the undertaking, was feared. Even Muraviev objected to spending money on the mineral concession.

After the Boxer uprising the expansionists at St. Petersburg urged that Russia should take advantage of the confusion to improve its position in Manchuria and Korea. Military and naval men insisted on obtaining and holding strategic bases. Count Witte, on the other hand, was for moderation. He favored a policy of conciliation with the other powers. Their protests had forced Russia to drop negotiations looking toward a monopoly of concessions in Manchuria and to promise in the convention of April, 1902, to evacuate Manchuria within eighteen months. "Had the Russians lived up to the April Convention and carried out the evacuation of Manchuria systematically there would have been no war. Not a single major power concerned would have disputed the Russian influence."¹ But the governors of Russia, contemptuous of the Japanese army, were not in a conciliatory mood. Bezobrazoff and his friends bombarded the Tsar with memoranda characterizing the convention as a confession of weakness, as an abandonment of Russian interests, and as a menace to Russia's position not only at Port Arthur but in the whole Far East. The new Minister of the Interior, von Plehve, evidently with his eye on Witte's

¹Langer, *op. cit.*, p. 304.

War and the Private Investor

position, expounded the theory of the "little victorious war" as a corrective for domestic unrest. He therefore identified himself with the Bezobrazoff group, and his support was probably decisive. Again Bezobrazoff stepped forward with his all-embracing plan.

Russian policy, said Bezobrazoff, must acquire unity of purpose, energy, and determination. Far from evacuating Manchuria, Russia must greatly strengthen its forces in the Far East in order to silence the opposition. It must create real economic interests in the Far East. A screen must be built up on the Yalu to protect the Russian flank from a possible Japanese attack and to threaten the Japanese should they make trouble. This might be done through the East Asiatic Industrial Corporation based on the Brinner concession. Other concessions might be obtained in Korea, and an attempt should be made to draw American support and sympathy to the Russian side by associating American capital in such enterprises. As for Manchuria, the policy should be to obtain control of the major economic undertakings.

These plans so fired the imagination of the Tsar that Bezobrazoff was sent to the Far East to reorganize Russian activities, and he went not only with the blessing of Tsar Nicholas, but with two million roubles appropriated by the Ministry of Finance "for purposes known to His Imperial Majesty." With this subsidy, and in feverish haste, Bezobrazoff began to establish "real Russian interests" of an "economic" nature. Offices of the East Asiatic Industrial Corporation were opened at Port Arthur and at Seoul. Negotiations were begun for a twenty-five-year monopoly of lumbering rights on the Manchurian side of the Yalu, and woodsmen (under the command of reserve officers) began activities in dead earnest on the Korean side. Barracks appeared, and under the pretext of protecting workmen and property, Russian soldiers were sent across the river. They began to construct military roads throughout the territory, thus bringing a large part of northern Korea into direct

Private Investments and Diplomacy

contact with their military base. The harbor of Yongampo, near the mouth of the Yalu, was a long distance from the timber operations, but it controlled the valley and might be made a point of junction between the Trans-Siberian Railway and the projected Seoul-Wiju line. Russian soldiers in civilian dress entered Yongampo in May, 1903, with a large number of Korean and Chinese coolies and began to build what they described as "timber warehouses." An American who visited the scene in December wrote that the Russians had already erected substantial brick buildings, including large barracks and stables, that a breakwater had been constructed, that the one hundred Russians, with one or two exceptions, were all military men, that they made no secret of building operations contemplated for the following spring, and that everything indicated a semi-political and semi-military permanent occupation.¹

The Japanese could hardly be expected to overlook the unmistakable meaning of these operations. Opponents of Bezobrazoff in St. Petersburg warned in vain of dangerous political complications. Their advice to withdraw the troops across the Yalu, resume negotiations with Japan over the Korean question, and reduce the economic projects to a strictly commercial, private footing was ignored. "Nicholas no longer had any taste for longwinded conference reports. His mind was filled with visions of the acquisition of half of Asia and he found the flowery and exuberant epistles of Bezobrazoff more palatable." The influence of the adventurer-promoter prevailed. Already a veritable warfare had begun on the Yalu between Russian and Japanese timbermen. Diplomatic relations were broken off in February, 1904, and the Russo-Japanese War was at hand.

Japan might have hesitated about going to war over Manchuria alone, but in the view of Japanese statesmen the developments in Korea made action inescapable. The pur-

¹In addition to Langer, *op. cit.*, see on this point O. Franke, *Die Grossmächte in Ostasien* (Hamburg, 1923), pp. 216-24, and A. J. Brown, *The Mastery of the Far East* (New York, 1919), pp. 142-46.

War and the Private Investor

poses which brought Russian activities across the Yalu must therefore be charged with a large share in the causation of the war. The foregoing has made sufficiently plain, however, that these purposes were not the promotion and protection of private investments made in the pursuit of commercial gain, but that the famous timber enterprises themselves were simply screens for political and military ambitions. The stockholders had to be persons "who would not demand immediate dividends" but would glory in rendering service to the Tsar. The "woodsmen" were soldiers. The initial expenses were defrayed by secret political funds from the Russian treasury. The operations undertaken were not designed to yield commercial returns, but to "create" what are called "real interests." It is not strange that the product of this "economic" venture was not lumber, but war.

ITALIAN INVESTMENTS AND THE CONQUEST OF TRIPOLI

Another war often ascribed to the direct influence of foreign investments on foreign policy is the Turco-Italian War of 1911-12, which resulted from Italy's seizure of Tripoli. In this instance the Banco di Roma is supposed to have pressed the government into action in order to protect its investments in Tripoli and to enhance the value of its land holdings.¹ As in the Yalu case, examination of the episode in its total setting will show that such an explanation puts the cart before the horse. The Banco di Roma established un-economic "economic interests" in Tripoli at the urging and under the subsidy of the Italian government, which already knew that some day Italy was to assert itself as a great power by taking that territory from Turkey. When

¹"The late Italian war had its motive, in a large part at least, in the speculations of the Bank of Rome." (David Starr Jordan, "Interlocking Directorates of War," *World's Work*, XXVI (July, 1913), 277. "It is certain that private interests, often of doubtful value, pushed Italy into seizing Tripoli. The rôle of the Bank of Rome should be particularly mentioned. . . . This bank established a navigation line between Italy and Tripoli, organized certain local industries; especially, it bought the best lands throughout the country. It desired the conquest in order to make a better profit on its establishments and in its various acquisitions." (Félicien Chalaye in *Revue du Mois*, XIV [Nov. 10, 1912], p. 637.)

Private Investments and Diplomacy

Turkish resistance to this policy of "peaceful penetration" imperiled the bank's enterprises it did add to the general pressure on the Italian government for immediate and decisive action of the sort which had been contemplated anyway for years, and in this sense the bank did become an active instigator as well as a passive instrument of state policy. This is a rather general characteristic of private investments used as tools of diplomacy. They do not remain merely tools, but having been led into rather large risks in support of government policy, they in turn demand that the government support them, which usually means a pressure that is hard to resist in favor of continuation and intensification of a policy of aggressive penetration. This might be called the "balance wheel" effect of private investments used as diplomatic tools; they add momentum to policy. Some details of the Tripoli case are most enlightening and will be briefly recited.

It is easy to establish beyond any doubt whatever that long before the Banco di Roma went to Tripoli, Italian statesmen of nationalist inclinations were definitely planning to take the territory. Francesco Crispi, as early as 1890 and before, made diplomatic preparation for that purpose with England, Germany, and Austria-Hungary.¹ In fact, European powers ever since the Congress of Berlin (1878) had intimated that Italy should seek expansion in Tripoli, and Italian aspirations had been turned still more in that direction by the French seizure of Tunis in 1881, which blocked Italy's hopes there and drove Italy into the Triple Alliance. From 1900 to 1902 Italian diplomats strengthened secret understandings with France, Great Britain, Germany, and Austria-Hungary which gave Italy a free hand in Tripoli, and Russia's approval was purchased in a secret treaty of 1909 regarding the Dardanelles.² If further proof of Italian

¹Francesco Crispi, *Memoirs* (London, 1914), II, 474, 450.

²See A. F. Pribram, *The Secret Treaties of Austria-Hungary* (ed. A. C. Coolidge, 1920), I, 95, 110, 117, 240; II, 232; Siebert and Schreiner, *Entente Diplomacy and the World, 1909-1914* (New York, 1922), pp. 142 ff. These are summarized in P. T. Moon, *Imperialism and World Politics* (New York, 1927), p. 219.

War and the Private Investor

intentions were needed it is found in the reports sent home in 1901 and 1902 by the German ambassador to Rome. Germany, as Italy's partner in the Triple Alliance, regarded the Tripoli venture with apprehension, but it was already apparent that if France should take Morocco Italy would take Tripoli.¹

What was behind this intention on the part of Italian statesmen, already so definitely fixed by 1902? Certainly not Italian investments in Tripoli, which were non-existent at this time. Nor could Italy by any stretch of the imagination be conceived to have had "surplus capital" pressing for investment opportunities abroad. The roots of Italian policy toward Tripoli must be sought in a state of mind affecting influential Italians, a spiritual mood calling for national expansion, and not in immediate economic factors. To be sure, this spiritual mood itself doubtless grew out of complex causes among which some of the most important were economic in the broad sense, but even these indirect elements did not include private foreign investments or pressure for investment opportunities in 1902. The expansionist state of mind was partly an imitation of other and more powerful nations. Territorial conquest had prestige value—it was "being done" in Africa and elsewhere by the best of international society. A new state like Italy, only recently formed out of a congeries of small principalities, might prove its right to a place in the world by taking colonies. Furthermore, said influential nationalists, the work of the *Risorgimento* had not yet been completed. The unification of Italy had created a state, but not a nation. It was necessary to achieve

"... Italy does watch over Tripoli with covetous eyes, but, nevertheless, Italian statesmen look forward with worry to the moment when the pressure of circumstances will convince them that they must lay their hands on Tripoli." (*Die Grosse Politik*, No. 5834, Dec. 12, 1901.)

The Italian foreign minister said, "Tripoli, as the last still unappropriated remainder of the Mediterranean coast, must some day become Italian." (*Ibid.*, No. 5843, Dec. 27, 1901.)

"That Tripoli will some day fall to Italy is not only taken for granted here, but is regarded as nothing less than a vital question, and that by all parties with the exception of a part of the extreme left." (*Ibid.*, No. 5848, Jan. 10, 1902.)

Private Investments and Diplomacy

moral unity, to form Italians and an Italian soul, and this could be accomplished by national action. Crispi had carried this work forward, but his plans for expansion had been rudely interrupted by the disastrous defeat at Adowa (1896) in which the "backward" Abyssinians, whose territory was to have added to Italian greatness, completely routed the arms of Italy. Now it was necessary to continue, and by achieving glories as a colonizing nation—worthy of the tradition of Rome—to efface the memory of Tunis and of Adowa, and to raise Italy from the ranks of the second-rate powers. These were the chief driving forces which, directly in the minds of statesmen and indirectly through the agitations of the nationalist press and nationalist orators, had set Italian policy definitely toward Tripoli.

But these spiritual forces needed material tools. Even with the diplomatic way smoothed, outright unprovoked annexation by force seemed a bit foolhardy.¹ "Peaceful penetration"—the gradual establishment of dominant Italian "interests" of all kinds in Tripoli, with the accompaniment of increasing political control, perhaps some day passing over into sovereignty—was obviously indicated. In what way does the government intend to exercise the paramount rights in Tripoli which the powers have recognized as belonging to Italy? asked Foreign Minister Tittoni before the Italian Senate in May, 1905. "Is it preparing to occupy Tripolitania? To this question I answer decidedly: No. To my mind Italy should not occupy Tripoli except when circumstances will make such a course absolutely indispensable." But no other power must increase its influence there, and "the rights we have upon Tripoli for the future must give us, even at present, a preference in the economic field, in directing our capitals to that region and in promoting

¹In December, 1901, the German ambassador and the Italian foreign minister discussed whether or not possession of Tripoli might be obtained by a peaceful understanding with the Sultan, thus avoiding the dangerous method of annexation by force. Foreign Minister Prinetti assured the envoy that Italian ambitions, which worried its ally, "would be fully satisfied with the acquisition of Tripoli, in whatever form." Von Bulow, in Berlin, noted on the dispatch: "For a while—yes." (*Die Grosse Politik*, No. 5843.)

War and the Private Investor

commercial currents and agrarian and industrial enterprises." He defended the government against charges of negligence with regard to Tripoli. It was doing much in that region for the development of Italian commerce, navigation, schools, public assistance, and economic action, and along this road the government intended to persevere. Rumors that a coaling station and harbor construction contracts had been granted to non-Italians were unfounded, but "the Italian Government must draw the Sultan's special attention to the grave consequences for Turkey of the granting by her of concessions or privileges in Tripolitania and Cyrenaica which would be opposed to Italian interests, as such a course would oblige the Italian Government to adopt energetic measures." Having thus made the situation clear "all that remains to be done is to quietly resume our work of economic penetration in Tripolitania. This will be the care of the Government."¹

How did the government happen to be assisted in this care by the Banco di Roma? In the first place, it is worth noting that Romolo Tittoni, Vice-President of the bank's Board of Directors,² was a brother of Tommaso Tittoni, Foreign Minister from 1903 to 1909. There were other circumstances still more interesting.³ The Banco di Roma was known as the bank of the Vatican, and on account of these Papal connections was handicapped in its relations with institutions close to the royal Italian government. Notably, it had been unable to obtain rediscount privileges at the Bank of Italy. Hoping to open this door, it took counsel in high places and finally the prized rediscount privileges were granted. But in

¹*Italy's Foreign and Colonial Policy*. A selection from speeches of Senator Tommaso Tittoni, during his term of office as Foreign Affairs Minister (1903-1909). Eng. Transl. (London, 1914), pp. 20-26.

²Report of the *Banco di Roma*, 1905.

³Here I rely upon an article by René Pinon, "L'Europe et la guerre Italo-Turque," in the *Revue des deux mondes*, June 1, 1912, pp. 608 ff. The article shows evidence of well-informed authorship, but I have been unable to check its story about the Banco di Roma against independent sources. Pinon does not say how he got his information.

Private Investments and Diplomacy

return the Banco di Roma promised to interest itself in the development of Italian economic enterprises in Tripoli.¹

These enterprises took the form of olive presses, an ice machine, a flour mill, an esparto grass press, a soap factory, a machine shop, an establishment for the preparation of ostrich feathers, another for sponges, a quarry—in fact, a whole series of the most diverse undertakings. Eight or nine branches or agencies of the bank were established along the coast and even back in the mountainous hinterland, the first in April, 1907, and all under the direction of Signor Bresciani, who had been a colonial official in Eritrea. Livestock was put out with Arab tribesmen for grazing, and in spite of the opposition of Turkish authorities and legal prohibitions against land ownership by foreigners, the bank succeeded in acquiring possession, if not legal title under native law, of large tracts of land. The total value of the capital put into Tripoli by the Banco di Roma up to 1911 was about four to five million dollars.² This included investments in steamships for coastal navigation and for linking Tripoli with other Mediterranean ports. In addition, the Italian government itself established schools and post offices, despite Turkish opposition, sent archeological expeditions, which naturally discovered Roman ruins, and encouraged Italians to initiate undertakings of other sorts. The desert sands of Tripoli were not too enticing, however, and most of the “economic interests” had to be created by the Banco di Roma. The Italian population of the whole region in 1911 was hardly a thousand, and scarcely two hundred of these had come from Italy.³

“The Banco di Roma . . . with a large capital of Vatican and Clerical money, professes that its aim is to further Italian commerce with the East, and for this reason, no less than for patriotic reasons—for the directors avow that they are none the less patriots because they are strict Catholics—decided to establish a branch bank in Tripoli.” This in Charles Lapworth, *Tripoli and Young Italy* (London, 1912), p. 67, a book which reads like propaganda in justification of Italy’s action and which mentions many interviews with Italian officials in the preface, tends to confirm the story given by Pinon about the bank’s rôle.

“La Tripolitaine à la Veille de l’Occupation Italienne,” an article in the French colonial organ, *L’Afrique Française*, 1911, pp. 362 ff., based on first-hand information obtained from Italian government and bank officials.

¹*Ibid.*

War and the Private Investor

The bank's navigation service, incidentally, was subsidized by the Italian government under contracts of April 23, 1910, and January 27, 1911.¹ This may be regarded as additional compensation to the bank—additional to its rediscount privileges and its patriotic consciousness of national service—for the very considerable losses it must have been bearing on its Tripolitan placements. Indeed, "the deserts of Tripoli and its scanty and indigent Arab population offered meager prospects to the profit-seeking financier,"² and any serious profit-seeking by the Banco di Roma must have been done at home, in the Italian treasury. When the actual occupation of Tripoli and the Turco-Italian war finally came along, the bank reaped a rich harvest in contracts for army supplies. It remained the associate of the Italian government in developing the colony, and its land holdings in Tripoli doubtless increased in value with Italian annexation.³

What precipitated the actual occupation, for which the way had been so carefully prepared by diplomatic action and economic penetration? The immediate signal was the French seizure of Morocco.⁴ Tripoli had been bargained against Morocco with France, and the Agadir crisis brought on by French action somewhat lessened Italy's fear of interference from the powers. Internal opposition to a reform program sponsored by Prime Minister Giolitti, in which the opposition directed its fire on the weakness of policy toward Tripoli in order to attack the government, also spurred Giolitti to action.⁵ Turkish nationalism, represented by the Young Turk

¹*Op. cit.*

²Jacob Viner, "Political Aspects of International Finance, II," *Journal of Business of the University of Chicago*, I (July, 1928), p. 341. I am indebted to this article for calling attention to the interesting aspects of the Tripoli case.

³Pinon, *op. cit.*, p. 609. The financial bulletin of *Le Temps* (Paris) recorded on September 23, 1912, that Banco di Roma securities enjoyed a very active market. "It is known that this bank should profit particularly by the conclusion of the peace on account of the vast terrains which it has acquired in Tripoli and which it will now commence to exploit."

⁴"The moment when France became lord of Morocco was the signal for Italy to proceed in Tripoli." (*Die Grosse Politik*, German ambassador in Rome to his foreign office, Sept. 28, 1911, No. 10,841.)

⁵Pinon, *op. cit.*

Private Investments and Diplomacy

revolution of 1908, had stiffened the resistance to peaceful penetration in Tripoli. The Turks were not only doing all they could to hold Italy back and to hamper the Banco di Roma, but were endeavoring to interest capital and enterprise from other nations as a counterweight. The nervous excitement of the (inspired?)¹ Italian press whenever it was rumored that a German had bought a parcel of ground, or that an American was to get a state contract, was intense. In Tripoli, as in similar cases elsewhere, the breakdown of pacific penetration quickly brought military action.

Once it had acquired a stake, the bank itself pushed Italian policy forward and had a hand in precipitating the occupation. It not only cultivated the soil in Tripoli, but public opinion at home. A special envoy of the bank, Signor Piazza, wrote articles for the *Tribuna* in April and May, 1911, which were then published in a book entitled *La nostra Terra Promessa* (Our Promised Land).² The Italian foreign minister, San Giuliano, told the German ambassador on the first of March, 1911, that public opinion was becoming too strong for him to resist, and that, in his opinion, the agitation was being engineered in great part by the bank, which was dis-

¹"By way of working up public opinion in favour of war, there have been seven Italian newspaper correspondents in Tripoli since spring (1911) for whose idle hands the devil sure much mischief found to do. These industrious pressmen, having nothing serious to report, magnified every trifle and inflamed every dispute. Their note was that if Italian concession-hunters did not immediately receive every concession they asked for, and that at their own terms, the Turks were thwarting Italian enterprise. If it was not the Turks it was Germany, or France. It is almost incredible the morbid suspiciousness which was thus developed in the Italian Press. There are hardly any Germans in Tripoli, but there are a few, who are on the look-out for business there as elsewhere. One of them got a contract for lighting the streets of Tripoli with acetylene lamps. Forthwith the *Tribuna* denounced 'the German invasion.' The Germans wanted to put up a hotel. The Italian colony opposed it as if the hotel had been a fortress. . . . The French got a contract to improve the harbour of Tripoli. The Italians made such angry protests the contract had to be cancelled. . . . The Italians, having earmarked the whole of Tripoli and Cyrenaica for their own, regarded every foreign merchant or explorer as a potential enemy." (W. T. Stead, *Tripoli and the Treaties* [London, 1911], pp. 42-43.)

²Cited in *L'Afrique Française*, 1911, p. 362. Propaganda of this sort, emanating from the colonialists and nationalists, with which the bank had cast its lot, and probably from government officials who desired to prepare public opinion after the decisive step was decided upon, created an utterly fantastic myth in Italy regarding the wealth of Tripoli. The truth was that, as a land for Italian colonization, Tripoli

War and the Private Investor

satisfied with results in Tripoli and wanted occupation. "The government finds itself in a very difficult position with regard to the Banco di Roma," wrote the Ambassador, since the government was "mainly responsible for the unprofitable Tripolitan undertaking."¹ Finally—ultimate threat!—the bank let it be known that it was considering negotiations with Austro-German or English financiers for the disposal of its interests in Tripoli.²

Out of all these circumstances emerged the ultimatum of September 28, 1911. It was intentionally drafted, says Giolitti in his memoirs, so as to make impossible any long discussion, which had to be avoided at all costs, for the army was ready, and the complacency of the powers might not last.³ The attitude of the Turkish authorities toward the economic enterprises created by the Banco di Roma afforded one of the many pretexts advanced in this amazing document, which concluded delightfully with the suave request that the Sublime Porte give the necessary orders so that the Italian military occupation "may meet with no opposition." Thus, as a patriotic Italian has written,⁴ "inexorable economic and political necessity" led Italy to the conquest of Tripoli.

was useless. It offered agricultural prospects of the poorest sort. Its mineral wealth, about which exaggerated dreams were rife in Italy, was problematical or non-existent. Administration of the Arab tribesmen was bound to be a difficult and costly task. The British journalist, W. T. Stead, was probably right when he estimated that profits which might arise from an exclusive monopoly of the trade of Tripoli would not yield one per cent on the cost of the war—said to have been over \$200,000,000. See P. T. Moon, *op. cit.*, p. 222, for data on the economic costliness to Italy of its colony.

¹*Die Grosse Politik*, Nos. 10,813, 10,815.

²Giovanni Giolitti, *Memoirs* (London, 1923), p. 205; Pinon, *op. cit.*, p. 609.

³Giolitti, *op. cit.*, p. 228.

⁴Carlo Schanzer, "Italian Colonial Policy in Northern Africa," *Foreign Affairs* (New York), Vol. 2, March, 1924, p. 446.

CHAPTER 4

How Investments Serve Diplomacy

SOME years ago the national advantage of citizens' investments abroad was subjected to scrutiny in a paper for the American Academy of Political and Social Science¹ by Mr. F. M. Huntington Wilson, whose analysis derives unusual interest from the fact that its author was Assistant Secretary of State under the Taft administration, and in that capacity, between 1910 and 1913, helped Secretary Knox formulate and apply the famous policy known as "dollar diplomacy." A particular foreign investment, he said, may have advantages for the nation of a political or of an economic sort. The political advantage of foreign investment includes "strengthening American influence in spheres where it ought to predominate over any other foreign influence on account of reasons of fundamental policy, like the Monroe Doctrine, or of military strategy or of neighborhood. Such a sphere is 'Latin America,' where our interest increases in intensity from a vanishing minimum at Cape Horn northward to reach its maximum in the zone of the Caribbean Sea, the neighborhood of the Panama Canal, and in Mexico. In this category falls also, for example, the discharge of our historic obligation to Liberia and the preservation of that little country as a *pied-à-terre* in Africa, of possible potential

¹*Annals of the American Academy of Political and Social Science*, 68 (November, 1916), pp. 298-311, "The Relation of Government to Foreign Investment."

War and the Private Investor

value to us for commerce or for the emigration of African Americans. Such political advantage ranks highest." Next comes "the maintenance of a traditional position favorable to our trade where trade may go by political favor, as in the Chinese Empire." Other instances of political advantage from investments would be "the strengthening of our friendship with other great powers, or . . . with countries where it is wise to preempt a share in a dawning development, like Turkey, or . . . with countries whose markets are especially valuable." The protection of the United States government to any particular investment of its citizens abroad, argues this paper, should be measured and meted out in proportion to the national advantages of this sort that may be expected from the investment.

During a debate in the German Reichstag in 1911 over the regulation of foreign security issues, a spokesman of the Chancellor reminded the financiers that they "administer the savings of the people, and . . . in investing these savings they must give attention not merely to their own business interests but above all to general national considerations of a patriotic and economic character,"¹ and these words of a prominent writer on the development of German banks were greeted with cheers from the parties of the right and center: "International business relations and international security issues must always be merely means to the attainment of national ends and must put themselves in the service of national purposes."² In other words, foreign investments not only may, in some cases, serve the national advantage, but according to this doctrine they must do so in all cases and do it consciously. If those who administer investments fail to act in ways that support national political objectives—even if they merely "waste" national power through capital in-

¹Dr. Delbrück, Secretary of the Interior, Reichstag debate of February 11, 1911, in *Verhandlungen des Reichstags, Stenographische Berichte*, Vol. 264, p. 4555.

²Quoted by two speakers in the same Reichstag debate (*Ibid.*, pp. 4554, 4560) from a book by Dr. Jacob Riesser, president of the Hansabund, translated as *The German Great Banks and Their Concentration*. . . (U. S. National Monetary Commission, 1911.)

Private Investments and Diplomacy

vestments that are financially profitable but politically useless¹—they must be subjected to state authority, or at least must not be given the whole-hearted protection of the state.² Similar doctrines have been asserted by statesmen and publicists in all the capital-exporting countries of the great-power class at one time or another—unless Great Britain should be counted an exception. The practice of guiding foreign investment in accordance with political interest was so decidedly followed by Tsarist Russia before the World War and by Japan and Italy both before and after that the doctrine hardly needed verbal assertion. It was voiced most vociferously in France and Germany and found occasional expression in acts of the government, accompanied by considerable quiet pressure. The same has been somewhat less true in the United States, and still less in Great Britain.

What are these aids to national policy that may be provided by capital investments abroad? The remainder of this chapter undertakes to analyze in detail just how private foreign investments may promote the “national advantage”—that is, to be more precise, how private foreign investments may promote the objects of those who have political power and who control the foreign policy and the diplomacy of the state.

“If we send our savings to the United States, to the French and English colonies, we simply strengthen a political and economic opposition; the more we invest, on the other hand, in our Chinese sphere of influence, in our colonies, in Central and South America, in southeastern Europe and in Asia Minor, the more effectively do we lay the foundation for a greater Germany, not in the political, but indeed in the national-economic sense.” (Sartorius von Waltershausen, *Das Volkswirtschaftliche System der Kapitalanlage im Auslande* [Berlin, 1907], p. 132.)

“We may say with assurance that Germany has no use for certain kinds of foreign securities, namely for all those which merely occupy the capital and which offer no opportunities to win economic and political advantages for Germany; such securities take away the place of useful foreign and domestic issues.” (Dernberg, *Kapital und Staatsaufsicht* [Berlin, 1911], p. 18.)

²Mr. Huntington Wilson argued, in the paper cited above, that to merit the strongest governmental support the foreign investment must be “really beneficial to the nation,” which would not be the case “if the investment diverted from channels of real national advantage money that might otherwise serve that advantage either abroad or at home.”

War and the Private Investor

ENHANCING POWER AND PRESTIGE

The most obvious and universal object of foreign policy among the members of the Western state system is the maintenance or increase of the state's power and prestige. Economic strength is one of the main constituents of political power, and insofar as private investments abroad are thought to contribute to economic strength—as by opening markets and sources of raw materials for national industry—statesmen will regard them as assets in foreign policy. Furthermore, insofar as private investments are effective assistants in facilitating penetration and conquest, maintaining regional dominance, cementing alliances, exerting pressure on a political adversary, or rallying domestic support to foreign policy—all topics to be considered further in this chapter—they will be regarded as contributors to national power and therefore as useful adjuncts to diplomacy. This hardly requires elaboration.

In an actual or potential measuring of armed force, private foreign investments may sustain military power by providing a reservoir of foreign exchange which can be used to finance the purchase of supplies. Thus, after a year or two in the World War the Reichsbank took a secret census of foreign securities held in Germany¹ and in England the Treasury mobilized foreign security holdings to facilitate purchases abroad, first by appeals to voluntary patriotism and later by compulsion.² Private investments have been important tools of military and naval strategists in seizing, consolidating, and strengthening bases for operations abroad—territorial footholds, naval coaling stations—in ways which will become fully apparent in the section on penetration and conquest. They have been used to screen secret military preparations (Yalu case, Chapter 3). The contacts and information acquired by private investors in strategically located lands have

¹Interviews with officials.

²A. H. Gibson and A. W. Kirkaldy, *British Finance during and after the War* (London, 1921), pp. 183 ff.

Private Investments and Diplomacy

proved valuable in military campaigns; so investment in such localities may be one aspect of military preparedness. Control of oil supplies is an important factor in modern naval preparedness in which the private investor has aided his government. In these and other ways investments abroad directly enhance military strength, hence increase the foreign power of the state and serve the "national advantage." As an offset must be reckoned the increased military vulnerability of widely scattered interests abroad.

Examples: The German naval office under von Tirpitz was most energetic about implanting private economic enterprise in the leased territory of Kiaochow and the neighboring province of Shantung after these areas had become German spheres. In fact, when selecting a location for this German base in the Far East, "my chief demand was capacity for economic development; it did not seem advisable to me to establish a purely military base."¹ Appreciative testimony has been given by British military officers concerning the value of the Imperial Bank of Persia, an English foreign investment, to British and Russian forces in the Middle East during the World War. Not only did the bank handle the large quantities of silver money necessary to operations in that region, but "the bank officials were valued advisers on political and intelligence matters, and frequently undertook the work of consuls or political officers. . . ."² Whether by plan or accident, the interests of American private investors have had an important part in facilitating the development of American naval strategy in the Pacific (especially Hawaii, where it was the revolt of American sugar plantation owners that offered the islands for annexation) and in the Caribbean, while German naval bases in the South Seas and numerous outposts of British naval power all over the world were pioneered by private investors.

While it is often true that private investments prepare the way for military and naval bases, in still more cases the *fear* that such may be the sequel to investment creates political implications around perfectly non-political private enterprise. The weaker independent states and powers that have interests to defend in strategic regions sometimes adopt a touchy, nervous, and irritable attitude in such matters which provokes unpleasant incidents and international discord over suspicions that may be wholly chimer-

¹Admiral Alfred von Tirpitz, *My Memoirs* (transl. New York, 1919), Ch. 8.

²Sir Percy Sykes, *History of Persia* (2d edn., London, 1921), II, 533-4.

War and the Private Investor

ical. Thus, the fact that economic enterprise *can* be used as a cloak for national political designs tends to prepare trouble for the enterprises themselves and for the relations between nations. Examples: The Wönckhaus firm in the Persian Gulf (Chapter 2). Also, in 1912 the United States Senate heard that Japanese subjects were about to acquire land on Magdalena Bay (Lower California, Mexican territory), and passed the Lodge resolution, declaring

“That when any harbor or other place in the American continents is so situated that the occupation thereof for naval or military purposes might threaten the communications or the safety of the United States, the Government of the United States could not see, without grave concern, the possession of such harbor or other place by any corporation or association which has such a relation to another government, not American, as to give that government practical power of control for naval or military purposes.”¹

See Chapter 14 for discussion of protective measures which a sense of insecurity leads weaker states to adopt against the political implications of investments from abroad and which themselves provoke conflict.

A few years before 1914 oil investments suddenly acquired an immense political interest, because oil fuel had recently become fundamental to sea power. If it seemed that petroleum companies were the special pets of aggressive diplomacy just after the war, the explanation was that their product ranked as a direct constituent of national power, like that of armament makers. Let one who doubts this read the memoirs of Lord John Fisher and Winston Churchill, who as Commander of the Fleet and First Lord of the Admiralty, respectively, directed the crucial shift of Britain's naval fuel supply from good English coal to oil that had to be secured abroad. “The fateful plunge was taken,” says Churchill, “. . . the supreme ships of the navy on which our life depended, were fed by oil and could only be fed by oil. . . . A decision like this involved our national safety as much as a battle at sea. It was as anxious and as harassing as any hazard in war. It *was* war in a certain sense raging under the surface of unbroken peace.” Thus the passionate quest of the navy for secure sources of oil impelled Great Britain to its famous purchase of control over the Anglo-Persian Oil Company in 1913.²

¹*Senate Journal*, 62nd Congress, 2nd Session, p. 511.

²Winston S. Churchill, *The World Crisis* (N. Y., 1923), I, 133-41, 179-81. “Oil is the very soul of future sea fighting. Hence my interest in it . . . my consuming passion for oil . . .,” wrote Lord Fisher. (*Records* [London, 1919], p. 194.)

Private Investments and Diplomacy

Not only actual power when it comes to a contest of force, but a reputation for power and a psychological hold on the respect or admiration of the world are important to a state and are usually among the primary objects of its foreign policy. If the relative strength of two contending parties is already known, a trial of strength is unnecessary; the weaker will yield to the stronger without going through a hopeless conflict. Thus, a reputation for power—in a word, *prestige*—means that a state can win many diplomatic victories without having to go to war, and this same prestige is its first line of defense against the diplomatic demands or the aggressions of other states.¹ Now, economic power is one of the main components of national prestige in the modern world, and perhaps no advertisement of national economic power is more efficacious than large and widespread foreign investments. Witness the tremendous prestige which accrued to the United States by reason of its change from a “debtor” to a “creditor” country during the war—dramatized as it has been in the writings of publicists. Private investments of citizens have been regarded as such important elements in the prestige of countries hoping to trade or colonize in a particular region of the earth that governments have intervened to prevent their passing into foreign hands. This was one of the considerations which led Bismarck to sponsor a subsidy bill before the Reichstag in 1880 when the interests of the famous Hamburg firm of Godeffroy—the “South Sea King”—threatened to pass into the control of Baring Brothers. English acquisition of the foundering firm, Bismarck thought, would not only rob Germany of its position in Samoa and elsewhere, but would injure the dignity of the Reich as a whole.²

The spread of a nation's particular culture outside its

¹Cf. the brilliant little book by R. G. Hawtrey, *Economic Aspects of Sovereignty* (London, 1930), Ch. IV on “Economic Power.”

²A representative of Bismarck in the debate spoke of the “disadvantageous reaction upon the prestige and the influence of Germany in that part of the earth, and far beyond its limits” which the fall of the Godeffroy house would have. “All the tedious negotiations which have been so carefully carried on and all the agree-

War and the Private Investor

boundaries—its language and literature, its art, a knowledge of its institutions—may also be a considerable factor in prestige, and in political power and influence. This reason, as well as the messianic phase of nationalism which leads every nation to believe that its civilization is manifestly superior to all others and should be carried to the rest of the world, accounts for the fact that the foreign offices of some governments have special divisions whose duty it is to promote the national culture abroad.¹ This purpose of foreign policy may also be advanced by private investments, especially direct investments, which carry with them innumerable contacts of a not purely economic sort.

Admiral Alfred von Tirpitz, under whose leadership the German navy made such spectacular and fateful growth before 1914, was indefatigable in attempting to plant German business men and German enterprises in the Far East, not only to sustain the military and naval interests which he was eager to have there, but also because he wished to spread the German language. He relates in his memoirs how he worked to diffuse German in China—a difficult task, as he remarks (strange admission for a nationalist!) because English is in many respects better suited as a commercial language. It always made him sad to see Germans in foreign countries falling away from the Fatherland, becoming American citizens or losing their national consciousness. “The future of Germany overseas, and our whole artificial and yet so indispensable position in the world, depended upon whether people could remain proud of the fact that they were Germans.”² A former foreign minister relates in his memoirs that the navy was so eager to extend “das Deutschtum” abroad—that is, to extend German speech, customs,

ments secured for the benefit of our countrymen in the South Sea will seem a striking contrast to the light relinquishment of the most important material basis of the rights we have won there.” (Alfred Zimmermann, *Geschichte der Deutschen Kolonialpolitik* [Berlin, 1914], pp. 17-19.) See an account of the Samoan case in Chapter 5.

¹The French Ministry of Foreign Affairs, for example, maintains a section which encourages an acquaintance in the outside world with French art and literature and language. It grants scholarships, contributes funds to assist in maintaining student houses where French is spoken at foreign universities, and confers decorations on persons abroad who have helped to promote cultural relations with France. See Frederick L. Schuman, *War and Diplomacy in the French Republic* (N. Y., 1931), pp. 36-7.

²Von Tirpitz, *op. cit.*, p. 111.

Private Investments and Diplomacy

manners, loyalties, influence—that it wished to accord special exemptions from compulsory military service to young men engaged in German enterprises in foreign parts.¹

Finally, a state's power and prestige is enhanced when it gains the right to be included in diplomatic conversations or international conferences on various "questions" of interest to a group of powers, such as the Turkish Question, the Far Eastern Question, the Moroccan Question, and the like. It may even find opportunities to drive political bargains, trading its support to more vitally interested powers for favors elsewhere. Private investments of citizens in the region under discussion are one of the well-recognized interests which entitle a state to such consideration, and thus indirectly they add to political power.

The Italian ambassador to Turkey was eager to bring about some sort of participation by Italian capital in the German projects for the early sections of the Bagdad Railway, mainly as a check on French influence. But he was unable to find Italian bankers who could be interested, and it was only after a great deal of trouble that he succeeded, at least nominally, in having some Italian capital included. Then "it was mainly Greek capital that went in under the Italian flag."²

Crispi relates in his memoirs that he planned to establish Italian interests in Morocco in order to use them as a bargaining tool with France.³

Between 1906 and 1910 the German government fostered German enterprise in Persia, gaining thereby a chance to thrust sticks into the wheels of Anglo-Russian understanding on the Persian question and a bargaining device which enabled it to combat Russian diplomatic resistance to the Bagdad Railway plans. It induced the Deutsche Orient Bank to obtain a banking concession, and there were negotiations regarding mining rights, the construction of waterworks, and railway concessions. The bank was not enthusiastic about these opportunities and did not develop them. In 1910 negotiations took place with Russia. "The German Govern-

¹The navy was willing to go further than the foreign office in this respect. Von Schoen, *Erlebtes* (Stuttgart, 1921), pp. 63-4.

²Karl Helfferich, *Georg von Siemens* (Berlin, 2d edn., 1923), III, 40-1.

³Francesco Crispi, *Memoirs* (London, 1914), pp. 82-3.

War and the Private Investor

ment had continued to maintain a stubborn front against the Anglo-Russian assertion of dominance in Persia. It did not recognize the Anglo-Russian agreement, and tried to insist upon the open door for German commerce and finance. When it was proposed that French financial advisers be appointed in Persia, German objections were vigorously heard. To show that it was a factor to be reckoned with, the German Government gave support to an expedition sent by the Deutsche Bank to study railroad possibilities. The expedition was designed in part to make 'Isvolski amenable to our desires in the Bagdad question.'" Finally, Berlin warned Russia that its support of German private enterprise in Persia would take a more vigorous form, and German policy gained its end. In November, 1910, Russia promised to put no future obstacles in the way of the Bagdad Railway. "In return Germany renounced all claim to railway and public works concessions in the Russian zone of influence in Persia. German enterprise had shown little eagerness to enter it."¹

FACILITATING PENETRATION AND CONQUEST

Private investments of citizens and agreements concerning them have been recognized diplomatic means of marking out spheres of economic interest and of political influence. They have also been used to earmark particular sections of tottering empires, serving notice that should a general breakup lead to a scramble for annexations the earmarked portions were reserved for a particular power. Of the many examples that might be given, a few are selected for presentation here, and numbers of others appear throughout the book.

The Anglo-Russian agreement of 1907 concerning Persia delimited the special sphere of each power mainly in terms of the support which would or would not be given to the private economic enterprises of its citizens. Article I: "Great Britain agrees not to seek for itself and not to support in favor of British subjects, as well as in favor of subjects of third powers, any concessions of a political or commercial nature, such as concessions for railroads, banks, telegraphs, roads, transportation, insurance, etc. beyond a line going from . . . to . . . and not to oppose, directly or indirectly, the applications for similar concessions in this region supported

¹Herbert Feis, *Europe the World's Banker: 1870-1914* (New Haven, 1930), pp. 369-372, in which German, British, and Russian diplomatic documents on the matter are summarized and cited.

Private Investments and Diplomacy

by the Russian Government." In Article II Russia made an identical pledge respecting the British sphere.¹

Large German investments in the Caroline Islands, as well as old claims, were cited by Germany after the Spanish American War in support of the contention that if the group ceased to be Spanish they should become German.²

The use of investments and investment agreements to earmark territories in an empire thought to be tottering has been most conspicuous in China. The frame of mind of many European statesmen was well indicated by von Bülow, Secretary for Foreign Affairs, in a speech before the Reichstag on April 27, 1898. Defending the military and naval occupation of Kiaochow, he said:

"Mention has been made of the partition of China. Such a partition will not be brought about by us, at any rate. All we have done is to provide that, come what may, we ourselves shall not go emptyhanded. It is not always the wish of the traveller that determines when a train starts, but he can make sure not to miss the connection. The devil takes the hindmost!"³

Tsarist Russia, Japan, England, Germany, and France prepared themselves against the eventuality of a partition of China by staking out spheres of interest or influence. "The first step was to secure a base, from which to radiate their forces of influence. After this, the railroad was usually employed to extend from the base to the interior, thus dominating the economic life of the sphere. To finance the railway, mining, and other forms of economic exploitation, foreign banks were usually established. Thus came into existence what was commonly called the policy of conquest by railroad and bank. And in order to avoid conflicts among themselves, the powers made agreements that they would respect each other's spheres of influence."⁴

It is interesting to note that a division of territorial spheres between Great Britain and Germany in China took place in 1898 in the form of an agreement between British and German bankers, the governments considering that a mutual official declaration would not be opportune. A German banking syndicate, represented by A. von Hanseemann, and representatives of the British and

¹*British and Foreign State Papers*, 1906-1907, Vol. 100, pp. 555-6.

²*Die Grosse Politik*, XV, 81-3, Nos. 4177-8.

³"Den letzten beissen die Hunde!" *Stenographische Berichte über die Verhandlungen des Reichstags*, 1897-8, III, 1987.

⁴M. J. Bau, *The Foreign Relations of China* (New York, 1921), pp. 38-9.

War and the Private Investor

Chinese Corporation and the Hongkong and Shanghai Banking Corporation agreed that "the British and German spheres of interest for applications for Railway Concessions in China" would be the Yangtze Valley and certain provinces on the one hand and Shantung and the Hoangho valley on the other. Certain connecting lines were to be built and operated jointly by an Anglo-German syndicate. The negotiations for this agreement, needless to say, were carried on under the eyes of the respective foreign offices and the results approved by them.¹

The examples given so far have dealt with the mere marking out of areas for exploitation or annexation. How do private foreign investments figure as aids to diplomacy in the more dynamic aspects of penetration and conquest? The utility of private foreign investments to aggressive diplomacy appears to be based upon four main characteristics: 1) Private investments can sometimes be made to carry with them certain specific, contractual rights of a political sort. 2) Private investments of citizens, under the existing system of national diplomatic protection, provide a state with a basis for asserting a general political interest in foreign territory where the investments are placed. 3) Private investments of some kinds necessitate the presence of citizens of the penetrating state in the territory being penetrated, perhaps in key positions, and this may be a factor of great strategic importance in diplomatic or military action. 4) Private investments provide, or can be made to provide, an abundance of excellent pretexts for aggressive diplomacy or military conquest. A succession of examples from actual cases where investments have assisted diplomacy will illustrate each of these points.

1. Specific, contractual rights of a political sort may be attached to private investments.

The concession for the Chinese Eastern Railway, running through northern Manchuria, was a contract between the Chinese

¹Text of the agreement in John V. A. MacMurray, *Treaties and Agreements with and Concerning China* (New York, 1921), I, 266. See also Great Britain, *China No. 1* (1899), p. 211.

Private Investments and Diplomacy

Empire and the Russo-Chinese Bank signed in 1896. It stipulated that "The Company shall have the right unconditionally and exclusively to administer its lands," meaning a zone of territory on each side of the line. This clause was used by the Russian tsarist government—acting through the railway company, which was private in form but controlled absolutely by the government—to justify its exercise of police authority over all persons living in the railway zone. In the face of contentions by the Chinese government, supported by the United States, that the French expression "*aura le droit absolu et exclusif de l'administration de ses terrains*" in the concession contract did not imply the surrender of any rights of sovereignty or political jurisdiction to the railway company, Russia sent in armed forces termed "railway guards" or "frontier guards," established police regulations, and Russian government officials exercised judicial functions.¹

Similarly, when Japan took over the South Manchurian Railway from Russia after the Russo-Japanese War it organized a company private in form but dominated by government influence and used it to create an *imperium in imperio* along the strip of Manchuria traversed by the railway. The Treaty of Portsmouth permitted fifteen railway guards per kilometer, so the seven hundred miles of the South Manchurian system, together with other substantial railway concessions obtained by Japan, made it possible to keep a formidable army in the region.²

Control of the Chinese Eastern Railway also enabled Russia to manipulate freight rates in a way designed to promote a Russian "colonial" development in Manchuria. Manufactured goods in through traffic between Russia and China, when *imported* into Manchuria, were subject to a tariff seven or eight times lower than the local tariffs applied to goods produced in Manchuria or to goods imported via ocean ports. Thus, the cost of transport from Moscow to Harbin, a distance of 4694 miles, was practically equal to that from Dairen to Harbin, 592 miles. After the Japanese obtained the Southern Railway through the Treaty of Portsmouth, practically prohibitive tariffs were established on the Russian section south from Harbin connecting with the Japanese section, in order to force traffic through the Russian port at Vladivostok. These rates were so high that both import and export cargoes actually moved alongside the railway on native carts.³ Needless to say, the finances of

¹MacMurray, *op. cit.*, I, 74 ff.; W. W. Willoughby, *Foreign Rights and Interests in China* (Baltimore, 1927), p. 157.

²T. W. Overlach, *Foreign Financial Control in China* (New York, 1919), pp. 168-9.

³*North Manchuria and the Chinese Eastern Railway*, Harbin, 1924, pp. 398-400. (Published by the Railway.)

War and the Private Investor

the railway suffered severely from such a policy, but profit-making never had been an object of this political venture.

France, too, took full advantage of rate-making on a railway built by French capital in southern China to give preference to French commerce. The railway policy of France in China, like that of Russia and Japan, and to some extent that of Germany, "has been a means to an end, an incident in a larger policy, which can only be described as in intention a policy of colonization."¹

2. Private investments provide a basis for asserting a general political interest.

Russia around 1900 was "determined to have Russian economic interests in the Persian Gulf" and was willing to pay for them, in order to establish a political stake in the region. (Wönckhaus case, Chapter 2.) Recall also the Yalu and Tripoli episodes (Chapter 3) and the discussion earlier in this chapter of the way in which political interests acquired by investment have been used for bargaining purposes.

3. Private investments may necessitate the presence of citizens in key positions in the penetrated territory.

In addition to political advantages that may be afforded by guards, police, or the setting of transportation rates, capital investments in railways usually involved the presence in the exploited country of construction engineers, managers, telegraphers, and other technical employees from outside. This is deemed an advantage by statesmen pursuing an aggressive policy of penetration, and one which they wish to withhold from rival nations. One of the important points of disagreement between France and Germany which led to the breakdown of attempts at joint bi-national economic undertakings in Morocco just before the 1911 (Agadir) crisis was German insistence that the personnel of the railway lines to be constructed by French and German capital should be of both nationalities in the same ratio as the capital invested. "We don't want German station masters in Morocco," exclaimed a member of the French cabinet.²

When Chinese and Japanese representatives at the Washington Conference (1922) negotiated for the return of Shantung to China,

¹P. H. B. Kent, *Railway Enterprise in China* (London, 1907), p. 93. Quoted with approval by Overlach, *op. cit.*, p. 130.

²André Tardieu, *Le Mystère d'Agadir* (Paris, 1912), p. 82.

Private Investments and Diplomacy

the Japanese at first refused to consider cash payment by China for the Shantung Railway. They preferred to have a long-term loan floated by Japanese capitalists, with a proviso that during the life of the loan a Japanese chief engineer, a Japanese traffic manager, and a Japanese chief accountant should be employed on the railway.¹

One reason why the British government did not confine its telegraphic communication with India exclusively to undersea cables was the political advantage which a land line would offer in the Anglo-Russian struggle over Persia. The first connection was established between the Indian and Persian coasts in 1864 and brought with it telegraph offices in the principal Persian ports, staffed with British personnel and equipped with their own means of defense. The lines subsequently operated by the Indo-European Telegraph Company to Teheran and across Persia greatly strengthened British influence, for they allowed Great Britain to keep a staff of officers and engineers constantly in the land. The telegraph offices even became places of refuge, like the foreign legations and consulate themselves, for Persian political protesters and malcontents.²

It should be mentioned that one of the politically useful aspects of the presence of private investments of citizens in the form of banking institutions where diplomatic battles are being waged is the availability of the bank for arranging loans to a government over which influence is sought. The methods of gaining and maintaining control over weaker states by advancing loans to them, by tying up their finances, by financial advisers, customs receiverships, pledged revenues, and the like are beyond the scope of this book, which does not deal with loans to governments.

4. Private investments provide pretexts for aggressive diplomacy or military action.

That the African colonies of Portugal might some day fall into the hands of more powerful European states seemed a not unreasonable expectation between 1898 and 1914, especially in view of the Portuguese reputation for colonial misgovernment. The German government was particularly eager to realize colonial ambitions of its own at the expense of Portugal, and joined in negotiations with Great Britain looking to that end. In 1898 each government

¹Willoughby, *op. cit.*, pp. 308-10.

²Mahmoud Afschar, *La Politique Européenne en Perse* (Lausanne doctoral thesis, Berlin, 1921), pp. 195 ff, Helfferich, *op. cit.*, I, 86-7.

War and the Private Investor

agreed to seek new concessions for its citizens only in specified sections of the Portuguese colonies, and secret provisions dealt with the private rights of citizens of the two powers "in case Portugal renounces her sovereign rights . . . or loses these territories in any other manner." In 1914 a secret draft treaty was initialed between Germany and Great Britain which set forth conditions under which each power might intervene to assert control of its earmarked portion of the Portuguese possessions. The conditions were so elastic that almost any difficulty might have been taken to justify intervention, and it is clear that German officials had been taking steps even before the negotiation of the treaty to see that such difficulties should arise. Private investments of citizens were among the most important means relied upon for this purpose. Railway, mining, and development enterprises in Portuguese territory had been encouraged by the German, British, and even the French governments with evident political motives, and in January, 1913, the German ambassador to London, Prince Lichnowsky, had told Berlin, "If we could gain influence over the administration of substantial areas in Angola through the establishment of a Chartered Company or in Mozambique by acquiring the majority of the Nyassa Company, it might perhaps be possible to apply the paragraph about colonies or portions thereof becoming independent." The British-French chartered company in Mozambique, the Nyassa Company, whose territories were in the sphere assigned to Germany by the secret agreement, passed under the control of German banks in 1914. A German-Portuguese group, backed by the large German banks and shipping companies, and possessing official consent, began the execution of a plan to join the German colonial railroads in southern Africa to the small railroad running to the Portuguese port of Mossamedes in Angola, and Lichnowsky expressed the judgment that "it might also become easy to give practical application to the paragraph about the endangering of important interests through maladministration once we have proceeded with energy to the creation of economic interests. . . ."¹

In August, 1901, the French government broke off diplomatic relations with Turkey and recalled its ambassador. Certain claims arising out of loans to the Sultan and out of a dock concession which had been granted to a French company and then withdrawn on account of the opposition of Turkish laborers and merchants

¹The above account is based on the researches of Feis, *op. cit.*, pp. 247-257. The quotations from Prince K. H. Lichnowsky are found in his book, *Heading for the Abyss* (New York, 1928), pp. 274-5, 312.

Private Investments and Diplomacy

were the grounds alleged for this drastic action. France used the occasion, however, to demand satisfaction on some political issues relating to the rights of French schools, hospitals, and missions, and to stage a naval demonstration likely to impress the Near East with French power. The calculations of the government in this episode plainly passed beyond the simple intention of assuring just consideration to French investors. The claims of the dock company simply happened to be among the "dossiers" on top of the pile.¹

In 1911 the government of Russia was determined to oust the American financial adviser, Morgan W. Shuster, whom Persia had called to its aid in an effort to escape Anglo-Russian dominance. A pretext was needed, and the investments of a Russian enterprise, the Discount Bank of Persia (really a political tool supported by the Russian treasury) supplied one which sufficed. The Persian government had decided to confiscate the estate of a certain rebel prince, and Mr. Shuster directed his treasury gendarmes to take possession. The Russian consul-general sent two secretaries and ten Cossacks to interfere, and later justified his action on the ground that the prince owed money to the Russian bank. Soon Russia claimed that the consul-general had been insulted. An ultimatum demanded of the Persian government, first, an apology, and when this was agreed to, the dismissal of Shuster.²

The anomalous situation in Manchuria before the Japanese occupation in 1931 was such as to provide plenty of convenient pretexts on the ground that China was not providing proper protection to foreign interests. While Manchuria theoretically remained a part of China and foreign control was limited to a narrow strip on each side of the railways, this railway zone was really the center of activities in the whole province. Even a strong government could hardly have governed satisfactorily under such a handicap. Thus the political privilege attached to the important Japanese railway enterprise automatically created the conditions which invited further extension of Japan's political control.

MAINTAINING REGIONAL DOMINANCE

Closely akin to the advantages of private investments for purposes of penetration and conquest are their services to a diplomacy which is concerned with maintaining a political

¹Feis, *op. cit.*, p. 153.

²Sir Percy Sykes, *History of Persia*, II, 424-5; Wm. Morgan Shuster, *The Strangling of Persia* (N. Y., 1912), Chs. V, VI.

War and the Private Investor

dominance already acquired over a weaker country or region. For such purposes it is important to forestall the assertion of political interest by other powers, and diplomacy may seek to do this 1) by preventing the development of important investment interests by citizens of other powers in the region where dominance is to be maintained, especially investments of a politically strategic sort, and by crowding out those that already exist; 2) by stabilizing and ordering the political situation in the region dominated so that other powers will not be given occasions for interference to protect the interests of their citizens. Private foreign investments can assist diplomacy in both of these tactics. In the actual process of exercising political control over the dominated countries investment interests are also useful, particularly because they provide plenty of occasions and convenient pretexts for the exercise of the more subtle forms of pressure sometimes known as "moral influence"—aptly characterized by Lord Salisbury as "a combination of menace, objugation, and worry."¹

As a part of the United States policy of maintaining a special interest in the Central American and Caribbean countries near the Panama Canal the State Department has at times consciously and avowedly sought to encourage the investment of American private capital in the region. Thus, at the direct request of Secretary of State Knox, American bankers in 1910-11 acquired an interest in the National Bank of Haiti, partially replacing French capital.² The same administration encouraged American business men to "crowd out" other European capital interests in the Caribbean region where these were regarded as uncomfortably predominant. The object of the policy was to avoid possible complications under the Monroe Doctrine in case investment interests in the region should be troubled by defaults or other difficulties which might bring a demand for intervention by outside governments. It was

¹Salisbury was referring to Britain's moral influence over Egypt. "In this we are still supreme," he continued, "and have many modes of applying it—diplomatic notes, consular interviews, newspapers, blue books. We must devote ourselves to the perfecting of this weapon." (A private letter to Lyons, July 15, 1879, in Lord Newton, *Lord Lyons: A Record of British Diplomacy* [London, 1913], II, 188.

²R. L. Buell, "The American Occupation of Haiti," *Foreign Policy Association Information Service*, Vol. V, Nos. 19-20, Nov. 27-Dec. 12, 1929, p. 334.

Private Investments and Diplomacy

also thought desirable to increase American influence in the region, and it was hoped that by developing these countries economically something might be accomplished toward giving the populations a vested interest in political stability, thus tending to overcome the chronic state of revolution so bothersome to American political and economic interests.¹

The widespread developments of the United Fruit Company may be cited as an example of private economic enterprise which definitely exercises a stabilizing effect on the internal political conditions of many countries where it operates. Whether desirable or not from other standpoints, this influence does help to maintain order and to facilitate the United States policy of forestalling interference by other powers. The company has been led in the interest of its own exploitations to build railroads, establish communications systems, develop important research laboratories and hospitals for the study and treatment of tropical diseases, carry out great sanitation projects, construct settlements, and to perform many other functions ordinarily associated with government. It also wields, of course, an unofficial but nonetheless real influence over the politics and politicians of many of these countries. In Colombia, where the laboring population is more enterprising and intelligent, the United Fruit Company has encouraged the tendency of its laborers to acquire small plantations of their own. The company thus hoped to reduce its costs of supervision and administration, and sought at the same time to create a group of native citizens that would have an interest in resisting political unrest and attacks on property rights.² Of course, the social and political effects of such a dominating enterprise as this great fruit company in the countries where it operates are not by any means wholly in the direction of stability. The importation of foreign labor supplies and the tendency for the economic life of a whole country to become

¹Interview with Mr. F. M. Huntington Wilson, Assistant Secretary of State under Knox, who wrote in the *Annals* article cited at the first of this chapter: "In the encouragement of foreign enterprise, diplomacy must beware of forcing it into spheres where vexations conflict with the special spheres of influence and interest of other countries outweighs all commercial gain to be looked for. Every great power has some 'doctrines' that it conceives to be as vital to it as the Monroe Doctrine is considered here. Korea and Manchuria, Persia and Siam, come to mind as examples of territory where, while conducting ordinary trade, we should be wasting our energies to attempt intensive developments. In return we should gradually crowd out from our own sphere of special interest foreign interests wherever they are predominant to an uncomfortable extent and quite beyond the requirements of an ordinary trade outside the spheres of special interest of the foreign governments concerned."

²See Wilhelm Bitter, *Die Wirtschaftliche Eroberung Mittel-Amerikas durch den Bananen-Trust* (Hamburgische Forschungen, Vol. 9. Braunschweig, 1921), pp. 68-9.

War and the Private Investor

dependent on one product marketed abroad by a foreign monopoly do not work in that direction. Increased revenues to the government, which in some instances make possible the maintenance of public order with the aid of improved roads and better policing, may in other instances promote disturbances by enlarging the booty of successful revolution.

In Albania, a little country on the east coast of the Adriatic whose strategic location gives it the same importance in the eyes of Italy that the Caribbean region possesses for the United States, internal improvements (roads, bridges, agricultural enterprises) carried out by an Italian development company known as the S.V.E.A., and a currency and credit system installed by the Italian-controlled National Bank of Albania, have been used to unify Albania and to promote its political stability under a government favorable to Italy. These enterprises, it must be remarked, are "private investments" in name only; from the start in 1925 they were carefully fostered by Italian diplomacy and bound up with loans to the Albanian state—loans which were first made by a syndicate of Italian banks under the guidance of their government and subsequently guaranteed by the Italian treasury, only to be superseded in 1931 by a direct advance from the Italian state to the Albanian state.¹

POLITICAL CEMENT—BUILDING ALLIANCES AND RAPPROCHEMENTS

Thus far we have been dealing mainly with services of private investment to diplomacy which can best be rendered in relatively weak and unstable countries. We shall now see that the political usefulness of investments extends to the relations of strong, modernly organized states among themselves. In the first place, foreign investments have been used in support of foreign policy where one power desires to win the political friendship of another power less well supplied with capital funds. The two classic examples are the building of the Franco-Russian alliance before the World War with the aid of French capital advances to Russia, and Italy's adherence to the Triple Alliance, which led to the withdrawal of French capital from Italy and the investment of German capital. In both of these cases private investments, as defined

¹See Chapter 9.

Private Investments and Diplomacy

in this study, played a part, though a relatively minor one. Loans to governments have the major rôle in most such politico-financial affairs.¹

Financial flotations in Paris helped the French foreign office to bring Russia into alliance with France, gave France a measure of control over Russian policy, and enabled France as the price of subsequent advances from its financial market to specify that Russia should increase its military forces and build certain strategic railway lines toward the German frontier. They also had the ultimate effect of binding lender to borrower—perhaps more firmly than borrower was bound to lender—so that French foreign policy had to conform to Russian aims. French investors before the war had put well over two billion dollars into Russian securities—one-fourth of all French foreign investments. Only some three to four hundred million dollars of this represented investment in other forms than loans to the Russian government, however. These private investments were in insurance companies, banks, public utilities, naval constructions, but above all in mines, textiles, and metallurgical works. They were a minor part of the underpinning to the Franco-Russian alliance, and except for the armament enterprises there is no evidence that they had more than a very indirect connection with politics. The French government did encourage its bankers to supply capital for metallurgical factories in Russia, particularly in order to prevent German firms from increasing their interests in the Russian munitions industry.²

In 1882, after the French occupation of Tunis, Italy joined Germany and Austria in the Triple Alliance. Italy had depended

¹See Professor Jacob Viner's study, "International Finance and Balance of Power Diplomacy, 1880-1914," *Southwestern Political and Social Science Quarterly*, IX, March, 1929, pp. 1-45, which examines a number of other cases as well as those of Russia and Italy. In none of the others is it apparent that non-governmental placements had a part.

²Feis, *op. cit.*, pp. 222-23. "For example, in March, 1914, the Russian metallurgical factories, Poutiloff, wanted to increase their capital, and gave an option to a Russian private bank, in which Krupp possessed an interest. The French Government caused this arrangement to be set aside and induced Creusot to enter negotiations to supply the capital." . . . "The metallurgical works were dependent upon the Russian Government for armament and railroad equipment orders, and were in intimate relations with both governments. L'Union Parisienne, the Paris bank which took the lead in financing this industrial development, had close connection with Schneider and Company (French armament interests) and with them 'began in 1912 to work out a general plan to participate in the munitions and materials orders for the Russian army and navy.' The French Government encouraged this process of investment and occasionally took measures to advance it."

War and the Private Investor

on the French market for loans, and it was now necessary for Germany to show that financial aid would be forthcoming from its new allies. A large bond issue for the city of Rome, undertaken by the Deutsche Bank in spite of unfavorable money markets, served this purpose immediately. Coöperation between leading German banks and the Italian government continued to develop, fostered by the German foreign office, and in a few years it suddenly became essential to the new alignment. The Triple Alliance was to end or to be renewed in 1887, and until that year France, apparently hopeful that Italy might withdraw or fearful that open hostility might drive it into renewal, continued to countenance financial relations between French bankers and the neighbor to the south. When the alliance was secretly renewed in March, 1887, and an Italian ministry unfriendly to France came into power, Franco-Italian relations grew rapidly worse and a tariff war broke out. Violent attacks on Italian securities appeared in the French press, probably with the approval of the government, though it was denied that they were inspired. This led French investors to dispose of their Italian holdings, while French bankers refused new credits and insisted on payment of their outstanding commercial loans. All this, coupled with a bad harvest, contributed in Italy to the collapse of a wild real estate boom which had been financed largely with borrowed French capital.¹ It has been estimated that in less than a year \$135,000,000 in French capital was withdrawn from Italian urban real estate.² Italy entered upon a severe commercial and financial depression.

In this emergency Francesco Crispi, Italian premier, appealed to Bismarck for aid, and Bismarck promised to use his influence with the big German banks. They attempted to check the fall in prices of government bonds by granting advances to Italy, by making large purchases on the Paris stock exchange, and by facilitating collateral loans on Italian securities. In 1890 important banking houses in Germany were brought into a syndicate for the support of Italian credit and the management of financial transactions with Italy. The German ambassador in Rome told Crispi that the German government had used "strong pressure" on Bleichröder, head of an important banking house and close to Bismarck, to persuade him to organize this syndicate.³

¹Viner, *op. cit.*, p. 13.

²Albert Billot, *La France et l'Italie; histoire des années troubles 1881-1899* (Paris, 1905), I, 143-6.

³Viner, *op. cit.*, p. 15; Crispi, *op. cit.*, II, 294, III, 217; Helfferich, *op. cit.*, II, 206-18.

Private Investments and Diplomacy

These measures related mainly to Italian state credit. As early as 1887-8, however, German banks had bought an interest in Italian institutions making mortgage and industrial loans, and this had been encouraged as part of the plan for cementing the Triple Alliance. In 1893 the whole business structure of Italy was severely strained by the failure of several important banks. The Italian government wanted the German bankers to take over the bankrupt institutions. This they refused to do, but in 1894 the Bleichröder syndicate, with Austrian, Swiss, and Italian aid, and under the urging of the German government, founded the Banca Commerciale Italiana in Milan. At times, says an anniversary publication of the Disconto-Gesellschaft, the whole plan for the establishment of a German bank in Italy came near falling through, but "consideration for the important matters at stake, touching as they did German political interests, nevertheless predominated."¹ The Banca Commerciale rendered valuable aid in the financial difficulties through which Italy was passing and later became a center about which many enterprises under German ownership or management found their way into the country, especially in the chemical, textile, electrical, and marine industries. German minority interests remained powerful in the Banca Commerciale down to the World War, but as the capital was enlarged French participation gradually outgrew the German. By 1896-7 a political reconciliation and renewed economic collaboration had begun between Italy and France, while Italy and Germany gradually drifted apart.²

Scraps of information and apparently well-founded rumors led to the supposition that in the alliance systems of the present day not only state loans, but in certain instances private investments as well, continue to play their part as in the Franco-Russian and Triple Alliances. It would be interesting to study, for example, the political influences surrounding the activities of French banks in Poland and the countries of the Little Entente, or of Italian construction firms in Bulgaria and other Balkan countries.

On a few occasions attempts have been made to work out a political rapprochement between rival powers on the basis of encouraging joint coöperation of their citizens in investment

¹*Die Disconto-Gesellschaft 1851 bis 1901. Denkschrift zum 50 Jahrgigen Jubiläum* (Berlin, 1901), p. 216.

²Feis, *op. cit.*, pp. 239, 241-2.

War and the Private Investor

undertakings abroad. The outstanding instance is the Franco-German accord of February 8, 1909, which recognized the paramount political interests of France in Morocco and provided that the two governments would "endeavor to associate their nationals" in joint economic enterprise there. These attempts failed, because political rivalry was too intense. Similar plans for Franco-German coöperation on railway undertakings in tropical Africa (Congo-Cameroon Railway) also collapsed.¹

Before the Russo-Japanese War, while Russia and Japan were jockeying for position, both made bids for American sympathy and encouraged the investment of American capital in Korea. Each power was obviously seeking to commit American interests in such a way that when the crisis came the United States would turn to its side.²

EXERTING PRESSURE ON A POLITICAL ADVERSARY

If foreign short-term funds on deposit in the financial institutions of a country are suddenly withdrawn in large amounts the effect may be a severe shock to the credit system of the country and perhaps a panic. A government which wished to exert pressure on the statesmen of a foreign country in time of political crisis might conceivably induce its banks to act concertedly in this way. A search for actual cases has revealed one instance in which such withdrawals were hinted at as a political threat³ and three instances in which, allegedly, a government has actually provoked withdrawals for political ends. All three of the latter instances involved the relations of France and Germany. French withdrawals from Germany were alleged to have been stimulated for political purposes in 1911 at the time of the Morocco crisis, in 1929 during the Young Plan discussions on the reparations

¹These experiences are discussed in some detail in another connection. See Chapter 18.

²Tyler Dennett, *Americans in Eastern Asia* (New York, 1922), p. 504.

³By Russia against Germany in 1912, in an effort to have Austria-Hungary restrained on Balkan issues. Karl Helfferich, *Der Weltkrieg* (Berlin, 1919), I, 103.

Private Investments and Diplomacy

question, and in 1931 during the political tension over the projected Austro-German customs union. Careful investigation of the 1911 instance shows that, while funds were withdrawn, the movement was not in response to deliberate political instigation. There is substantial reason to believe that the withdrawals during the Young Plan negotiations were politically engineered and motivated. It seems very doubtful that a plan to exert political pressure was the effective cause back of the 1931 withdrawals.¹

Long-term private investments are not ordinarily susceptible to use as instruments of pressure in this same way. Of course, an inspired attack on the credit of a foreign country through the press might instigate sales of its government bonds and perhaps also sales of industrial issues. This apparently occurred in the case recounted under the preceding topic, when Italy turned from France to the Triple Alliance and French long-term investments were withdrawn. Very special circumstances would seem to be necessary, however, to make such pressure practicable through long-term security sales, and direct investors are obviously not in a favorable position to make sudden withdrawals of their properties abroad. A means of pressure more often used in the case of long-term investments lies in the control over foreign security flotations—that is, the power of a government to deny access to its capital market except on terms which may involve political concessions. This will be discussed in Chapter 10.

RALLYING DOMESTIC SUPPORT

One of the political advantages of private investments abroad to those who control government policies arises out of the fruitfulness of foreign investment interests as sources of “good reasons”—arguments that can be advanced to justify policies which are desired for whatever “real reasons.” Sometimes vigorous support of imperiled citizens or their interests abroad can be used to arouse a thrill of patriotic fervor

¹The evidence at the basis of these conclusions is not presented here because short-term placements lie outside the scope of this book.

War and the Private Investor

which strengthens those in power domestically. President Theodore Roosevelt employed such technique in 1904 when a lukewarm convention of his party was meeting in Chicago and the opposition party was exulting in new-found unity. He stirred his followers to enthusiasm by ordering Secretary Hay to send a message to the American consul-general at Tangier: "Perdicaris alive or Raisuli dead." Perdicaris had been captured by Moroccan brigands in a quarrel with the Sultan, but recent research reveals that at the time this inspiring message was sent and trumpeted in the American press arrangements had already been made for his release. Not only that, but the State Department had already discovered that it was doubtful whether Perdicaris was really an American citizen and entitled to the protection of the United States. Roosevelt, informed of this fact, had suppressed the information and sent the telegram.¹

"Our investments abroad," when they exist, or the need for finding investment opportunities, when they do not yet exist, have often furnished useful rationalizations on which propaganda designed to rally support to a particular foreign policy has been based, either by government officials themselves or by political pressure groups with a definite program to promote. The policies which private investments have most often served in this way are aggressive colonial expansion and the building of bigger navies.

Jules Ferry, who may be called the founder of modern French colonialism, argued in favor of his expansionist policy that it was well adapted to the situation of France, a country with great capital resources which needed opportunities abroad in colonies and territories under French rule.² A careful reading of French colonial literature reveals that it was not the spokesmen of business and banking who used arguments like this, but rather political leaders of the Ferry type,

¹Tyler Dennett, *John Hay* (N. Y., 1933), pp. 401-2. Henry Pringle, *Theodore Roosevelt* (N. Y., 1931), pp. 388-9.

²Alfred Rambaud, *Jules Ferry* (Paris, 1903), pp. 390, 393; cited in J. Viner, "Political Aspects of International Finance II," *Journal of Business of the University of Chicago*, I (July, 1928), p. 350.

Private Investments and Diplomacy

colonial governors and officials, publicists fired with a patriotic zeal for glorious expansion, military men—the types that predominated in the Comité de l'Afrique Française. The talk about investment opportunities was to win support for a program which these groups desired mainly for other reasons. Presumably it helped to enlist business men and investors in the cause.

Similarly in Germany the cry of new markets for German capital was used along with many other appeals by the missionaries, romantic geographers, traders, adventurers, and noblemen who led the colonial societies. "The steadily diminishing yield of capital investments within our present economic area" is one reason among several pages of reasons for colonial expansion in a propaganda booklet called "Why World Power? The Significance of our Colonial Policy."¹ Once Bismarck had taken an open stand in favor of colonization, he, too, used this reason. "Colonies would mean the winning of new markets for German industries, the expansion of trade, and a new field for German activity, civilization and capital."² Bismarck also employed existing German private investments abroad for internal political purposes when he made their vigorous support, notably in the proposed state guarantee of the Godeffroy interests in Samoa, into an issue which he could use as a trial balloon to gauge whether or not public opinion was ready for an official colonial policy.³

But perhaps that group in the internal politics of nations which finds private investments abroad most serviceable for propaganda purposes is the bigger-navy group. Every naval power has such a group, centering about a self-perpetuating professional clique allied with powerful industrial interests which build ships and provide armaments. The propaganda technique of this group places considerable emphasis on the

¹Reproduced from an article in the *Kölnische Zeitung* of August 4, 1881, in a pamphlet by Hübbe-Schleiden, published in Hamburg, 1906.

²Speech before the Reichstag in 1885, quoted in M. E. Townsend, *The Rise and Fall of Germany's Colonial Empire, 1884-1918* (New York, 1930), p. 120.

³Townsend, *op. cit.*, pp. 73-5.

War and the Private Investor

need for protection of overseas capital placements. A pamphlet published by the United States Navy Department in 1923 under the title *The United States Navy as an Industrial Asset* contains interesting examples of such propaganda. Secretary of the Navy Wilbur spoke in a similar vein before the Connecticut Chamber of Commerce in 1925: "... We have loans and property abroad, exclusive of government loans, of over ten billions of dollars. . . . These vast interests must be considered when we talk of defending the flag. . . . To defend America we must be prepared to defend its interests and our flag in every corner of the globe."¹

Nowhere have overseas investments been invoked as a justification for naval expansion more elaborately and more successfully than in the Germany of William II. Admiral Alfred von Tirpitz, the presiding genius of the fleet, was not merely a naval technician, but an astute organizer of public opinion. The Kaiser relates in his memoirs how Tirpitz decided that the entire procedure of the Imperial Marine Office must be changed if the opposition to a big navy was to be overcome in the Reichstag. The mass of the people must be persuaded. An extensive propaganda program must be planned by the naval staff and carried through with the aid of the press and of important men in the universities and technical schools. Scientists must lend their pens to prove that a bigger navy was an economic and political necessity to Germany.²

The chief of Tirpitz's scientific agitation was a former Privatdozent at the University of Berlin who had changed his original name of Levy—doubtless not the most suitable for his purposes—to Ernst von Halle. He was engaged in the summer of 1897 on the recommendation of Professor Schmoller as a scientific aid in the news service bureau of the Imperial Marine Office and served until his death in 1908. It was he who produced the elaborate memoranda on "German Sea Interests." The first of these was prepared on the occasion of the first navy bill introduced into the Reichstag in 1897. In 1905 a still more elaborate effort along the same lines brought the data and the arguments up to date.³ These publications con-

¹*New York Times*, May 8, 1925, p. 18, quoted in Charles and Mary Beard, *The Rise of American Civilization* (N. Y., 1927), II, 705.

²Kaiser Wilhelm II, *Ereignisse und Gestalten* (Leipzig, 1922), p. 194.

³*Die Seeinteressen des deutschen Reichs*, Zusammengestellt auf Veranlassung des Reichs-Marine-Amts, 1898.

Die Entwicklung der deutschen Seeinteressen, Reichs-Marine-Amt, Berlin, 1905.

Private Investments and Diplomacy

tained short chapters on Germans dwelling abroad, foreign trade, shipping, deep-sea fishing, German colonies, and German overseas investments. They compared the war fleets of the various powers and argued that although German sea interests had been developing very rapidly the navy had been allowed to lag behind. "If Tirpitz was the creator of the theories of sea interests and of the productivity of armament expenses, then it was Halle who successfully spread them."¹

It is significant that the first serious attempt to reckon the amount and geographical distribution of German foreign investments—indeed, the only attempt before the war to gather first-hand data—was that undertaken by von Halle and published in these big-navy broadsides. Incidentally, the propagandists of the Imperial Marine Office secured estimates of German overseas interests from the Chambers of Commerce in Hamburg and Bremen and, when the figures seemed to them too small, increased them according to need, causing some annoyance to those who furnished the original data.²

Were those who had a direct interest in foreign investment among the primary moving forces behind the big-navy agitation? The answer is no; at least, their importance was relatively small. Then who provided the money and who helped to build up the propaganda organizations, including the great *Flottenverein* or Navy League and the various colonial societies, that "sold" the idea of naval expansion to the German people? First and foremost, the agitation was instigated by government officials, from the Kaiser down, and especially by the professional navy clique under Tirpitz. Most of the Navy League's money came from heavy industry—from armament makers, like Krupp—and from business men who hoped to profit on naval contracts. Large amounts were contributed by persons who saw that this was a short-cut to official favor and honor. "If a future historian of our recent past draws up a list of those business men who contributed handsome sums to the Navy League and further ascertains how many of these gentlemen were shortly thereafter signaled out for orders or titles, the result will be interesting, though not very complimentary to the German business class," wrote a banker close to official circles.³ The Ham-

¹Eckart Kehr, *Der Kampf um das erste Flottengesetz* (doctoral thesis, University of Berlin, 1929), p. 95.

²Eckart Kehr, "Soziale und Finanzielle Grundlagen der Tirpitzschen Flottenpropaganda," *Die Gesellschaft*, 1928, II, p. 219, and the same author's book, *Schlachtflottenbau und Parteipolitik: 1894-1901* (Berlin, 1930), pp. 460 ff.

³Paul von Schwabach, papers and memoranda from his files printed for private circulation under the title *Aus meinen Akten* (Berlin, 1927), p. 210.

War and the Private Investor

burg Chamber of Commerce and others with overseas trading interests worked for an increase in the fleet, but they were interested not so much in the protection of investments as in the defense of North Sea trade against blockade in case of war.¹ The great popular support worked up by the Navy League came from the mass of small people—petty merchants and barbers' assistants who felt themselves big in the glory of the Fatherland, the same types who composed the rank and file of the Pan German League, or the post-war National Socialist movement. These were the groups that devoured von Halle's statistics on German investments overseas and clamored for increased naval "insurance" to protect these investments. Thus, it was not overseas investors so much as capitalistic interests of other sorts—mainly the metallurgical industry—that combined with the official military cast and the nationalistic sentiments of the lower middle class to put through the German navy program.

One might expect bankers doing an international business to be among the first to concern themselves for the safety of capital abroad but, if my impression is correct, the "international bankers" as a class are rarely in favor of big naval programs. They know that, convenient as gunboats may be now and then against weak countries, naval competition among the powers imperils foreign investments by making war more probable. It is navy men and nationalistic patriots, aided by propaganda funds from armor-plate makers, who are most vocal about the need for naval protection to overseas placements. Indeed, the conclusion of the matter seems to be that private foreign investments have been considerably more useful as an aid and protection to navies than navies have been as an aid and protection to foreign investments.

ASSISTING ECONOMIC FOREIGN POLICY

In what ways have private foreign investments contributed to the "national advantage" in the field of economic foreign policy? It should be remarked that here, as elsewhere in this chapter, the "national advantage" means the purposes of those who wield effective political power and control the

¹Eckart Kehr, *Schlachtflottenbau* . . . , pp. 240-1.

Private Investments and Diplomacy

foreign policy and diplomacy of the state. These purposes may at times be based on the interests of only a small class in the general population of the nation, or they may be based on false notions of interest arising out of economic delusions of the mercantilest type, which lead statesmen to regard exports as good and imports as bad. They are often rationalizations of sentimental and patriotic considerations, rather than the hard-headed pursuit of material interest that they claim to be. Furthermore, it is impossible to distinguish sharply between the economic and the political purposes of modern governments which find expression in their foreign policies. It is perhaps inevitable under the existing world system of sovereign national states that the fundamental aim of foreign economic policy should really be attainment of the essentially political desiderata of power and prestige. It seems to be true in fact that when it comes to a conflict of purposes states direct their policy in the way which promises power and prestige rather than in the way which promises a "mere" increase in economic well-being, though a policy which incidentally promotes economic welfare or appears to do so while also increasing economic power is all the more laudable in the eyes of statesmen. However, it is not our present purpose to appraise the foreign economic policies which investments may be found to serve, any more than we undertook to sit in judgment on the political policies which they serve. Instead of questioning whether particular economic foreign policies of states are good or bad, sane or insane, we shall take them as data and inquire how the private investments of citizens abroad have helped to promote them.

Private investments abroad have been regarded as useful to economic foreign policy: 1) in the promotion of export trade; 2) in tapping new sources of raw materials, especially of those regarded as having a strategic industrial or military value; 3) in breaking price-fixing monopolies abroad which might enable foreigners to exploit domestic consumers; 4) in executing emergency measures designed to stem an international financial panic.

War and the Private Investor

For the first purpose, the specific types of private investment abroad regarded most highly by those in charge of governmental promotion of the export trade have been banks, trading and plantation enterprises, and railways or other types of transportation. Enterprises of this sort are prized as focal points about which the nation's economic activities in given regions can be organized. They are path-breakers to further trading and investment opportunities. Much of the encouragement which governments have given in innumerable instances to railroad construction outside their own boundaries has had its roots in economic as well as political foreign policy. Governments seek trade penetration as avidly as they seek political penetration at times.

The Deutsch-Asiatische Bank, to select one instance, was founded on the joint initiative of bankers and government officials for the encouragement of German economic and political influence in the Far East.¹ Other German overseas banks successfully performed similar functions in many parts of the world. They have been particularly conspicuous as focal points for diverse types of enterprise, from constructing and running street car systems to mining, agriculture, and commerce—in large part, no doubt, due to the traditionally close relation which has existed in Germany between banking and industry. The activities of the German banks before and during the war were much written about in other countries, sometimes as proof of a dastardly Teutonic imperialism, sometimes as examples of national trade promotion which the banks of other countries should copy. Ownership of large interests in Russian banks was believed by the *London Times* to account for much of the German success in Russian industry and trade before 1914. Great Britain would have been better off had its citizens followed the German example instead of investing in speculative oil and gold enterprises, said this same authority. "By acquiring interests in Russian companies and banks British trade will obtain a much firmer footing in Russia. It is a singular and striking fact that we have invested vastly more capital in Russian enterprises than have the Germans; yet they have been able to exercise far greater influence on Russian industry. . . . It brings us back once more to the incalculable advantages that the Germans have de-

¹*Die Disconto-Gesellschaft: 1851 bis 1901*, p. 212; Helfferich, *Georg von Siemens*, II, 168.

Private Investments and Diplomacy

rived from their interest in the great Russian commercial banks.”¹

A sober student of German banking has warned that the part played by overseas banks in encouraging national exports can be overemphasized. Despite the propaganda put out by such banks for home consumption, the investment of capital is their main business abroad. As a director of a German bank organized for operations in Brazil put it: “To be sure, a German overseas bank is the crystallization point for business relations with Germany, but this circumstance sinks to the level of an accompanying phenomenon, as does the circumstance that the original capital, the central control, and the higher officials belong to the German mother country. Without exception the thing which comes to overshadow everything else in importance is the activity carried on within the overseas economic territory itself, without regard to nationality—a root-taking in the foreign land.”²

Governments have attempted to use capital investment as an instrument of export trade promotion through encouragement of so-called tied loans—that is, by having provisions inserted in loan agreements whereby the borrower agrees to spend the proceeds of the loan, or a specified portion of it, in the country from which the loan comes. A recent careful study of this phenomenon showed that tied loan contracts are found, in general, only where there is a considerable difference in political power between the lending and the borrowing countries and where the borrowing country is relatively undeveloped capitalistically but is in process of becoming industrialized. Not over ten per cent of all long-term international capital investments involve tied contracts. It is usually the political authorities of the capital-lending country that exert their influence, on grounds of national economic policy, in favor of tying exports to loans, and their wishes frequently meet with resistance from bankers—greater resistance in a country like the United States, where the relatively loose connection between banks and industry means that the banker’s interest in commissions and the purely

¹*The Times Book of Russia* (London, 1916), introduction.

²Quoted in lecture by Julius Landmann, “Ueber Mittel und Grenzen der Bankmassigen Exportförderung,” in stenographic record of the first “Schweizerischer Bankiertag,” Geneva, October 18, 1913.

War and the Private Investor

financial aspects of the loan transaction overshadow his interest in throwing business to American concerns, and less resistance in countries where, as in Germany, banks have been very directly interested in the profits of particular industrial enterprises. In general, furthermore, tied contracts are an issue mainly in connection with loans to foreign governments, though they do figure sometimes in private industrial loans.¹

Nearly all the foreign loan contracts made with the Chinese government for the financing of railway construction were found upon investigation to contain clauses regarding the national origin of materials and equipment. A study of actual locomotive purchases showed that before the war 72% and after the war 56% of the locomotives in China had the same national origin as the capital which financed the line where they operated, and that neither before nor after the war was there a single English or French locomotive on a line not built with capital of the same nationality. American locomotives, on the other hand, were the most widely used on Chinese railways after the war. They appeared on lines financed by English, French, German, Belgian, Japanese, and Russian capital; American financing was a very minor factor in their finding a market.²

Governments of capital-exporting countries have also used the privilege of admission to their capital market as a bargaining device in pursuit of ends set by commercial policy. France, for example, threatened to veto the listing of Danish securities on the Paris Bourse in retaliation for an increase in Danish customs duties on French wines (1907), and obtained some concessions. Similar pressure was used against Sweden about the same time, and wine duties were lowered. The government's veto power over securities listings was often used to obtain contracts for French firms, particularly in the munitions industry, and in 1909 listing of United States steel securities was vetoed following a protest by the *Fédération des Industriels et Commerçants Français* that listing would

¹Gerd Tacke, *Kapitalausfuhr und Warenausfuhr; Eine Darstellung ihrer unmittelbaren Verbindung*, No. 57, in the series *Probleme der Weltwirtschaft* Institut für Weltwirtschaft und Seeverkehr, Kiel (Jena, 1933).

²*Ibid.*, pp. 131-138.

Private Investments and Diplomacy

result in French capital aiding foreign rivals to compete with the French metallurgical industry.¹ The device of listing vetoes is treated more fully in Chapter 10. The French government also sought to bring about French representation on boards of directors where loans were made to foreign industries, endeavoring thereby to foster orders to French enterprises.²

In the case of direct investments, such devices as tied contracts and veto of listing privileges are less applicable or not applicable at all, but, nevertheless, direct investments have been regarded as important promoters of export trade, mainly through their service as focal points of national enterprise abroad. Of late, however, the development of what has been called "the new export technique" or "the branch factory movement" has given statesmen with mercantilist inclinations some qualms regarding the beneficence of this type of foreign placement.³

The way in which an important capital placement can become the center for national economic expansion of many kinds is well illustrated by the Bagdad Railway. The following is summarized from a section of E. M. Earle's history of the railway⁴ which he heads, "The Traders Follow the Investors": The construction of the Anatolian Railways by German capitalists was accompanied by a considerable expansion of other German economic interests in the Near East. In 1888, the year of the original railway concession to the Deutsche Bank, exports from Germany to Turkey were valued at 11,700,000 marks; by 1893, when the line was completed to Angora, they had mounted to a valuation of 40,900,000 marks, an increase of about 350%. Imports into Germany from Turkey rose during the same period from 2,300,000 marks to 16,500,000 marks, an increase of over 700%. A large proportion of the increased Ger-

¹These examples and others are documented in J. Viner, "Political Aspects of International Finance, II," *Journal of Business of the University of Chicago*, I (July, 1928), pp. 353-4.

²Feis, *op. cit.*, pp. 131-2.

³See the discussion in Charles A. Beard, *The Idea of National Interest* (New York, 1934), pp. 157-8; also Frank A. Southard, *American Industry in Europe* (Boston, 1931), *passim*, and pp. 190 ff.; also *American Branch Factories Abroad*, Sen. Doc. 258, 71st Cong., 3d Sess. (Washington, 1931).

⁴*Op. cit.*, pp. 35-7.

War and the Private Investor

man exports to Turkey can be attributed to the use of German materials on the Ismid-Angora railway. The Deutsche Bank, sponsor of the Anatolian Railways, had been notably active from its founding in the promotion of German foreign commerce. Its charter announced the object "of fostering and facilitating commercial relations between Germany, other European countries, and oversea markets." By establishing foreign branches, liberally financing import and export shipments, introducing German bills of exchange in the four corners of the earth, and by similar methods, the Deutsche Bank had helped to emancipate German traders from dependence upon British banking facilities. It pursued the same policy in Turkey. The *London Times* noted in 1898 that, whereas ten years before the finance and trade of Turkey had been practically monopolized by France and Great Britain, the Germans were now by far the most active group in Constantinople and in Asia Minor. Hundreds of German salesmen were traveling in Turkey. The Krupp-owned Germania Shipbuilding Company was furnishing torpedoes to the Turkish navy, and Krupp was sharing with Armstrong the orders for artillery. German bicycles were replacing American-made machines. A group of Hamburg entrepreneurs had established the German Levant Line, which provided direct steamship service to Constantinople. In 1899 a group of German financiers founded the Deutsche Palästina Bank, which proceeded to establish branches at Beirut, Damascus, Gaza, Haifa, Jaffa, Jerusalem, Nablus, Nazareth, and Tripoli-in-Syria. "Promoters, bankers, traders, engineers, munitions manufacturers, ship-owners, and railway builders all were playing their parts in laying a substantial foundation for a further expansion of German economic interests in the Ottoman Empire."

The second service of private investments abroad to national economic policy—that is the tapping of new raw material supplies—derives its importance mainly from the strategic interest which control of certain substances acquires in time of war, although statesmen sometimes regard it as a worthwhile object in itself to free national industries from dependence on foreign-controlled sources of supply even in peacetime. The international political aspects of the "struggle for oil" which received so much publicity in post-war years, and in which the active intervention of governments in the competition of private or semi-private com-

Private Investments and Diplomacy

panies was often seen, is explainable only in part on the basis of the political influence wielded by owners of oil companies in the interest of their own profit. Far more important in accounting for the strenuous diplomatic support of oil enterprises was the great significance attached to oil as a factor in naval power.

Some examples of investment aid to foreign economic policy on raw materials: An Italian oil company, the Azienda Generale Petroli, in which the Italian government held a large share of control, was introduced into Rumania in 1926 under the auspices of the two governments in connection with a small loan to Rumania and settlement of the Rumanian-Italian war debt. This move was said to be part of the Italian policy of making Italy independent of British and American-controlled companies for oil supplies.¹ Britain's official entrance into oil production as part owner of the Anglo-Persian Oil Company has already been mentioned.

One of the compelling reasons given by Japanese statesmen for penetration in Manchuria and other parts of China was their desire to bring raw material resources needed by an industrialized Japan under Japanese control. Various aspects of investment penetration technique used in Manchuria are discussed elsewhere in this book. Japan's use of private loans to obtain control of the native Hanyehping iron and steel works in the Yangtse valley, which had been fostered by the Chinese government, is a striking example of the advantages afforded by investment operations to this phase of foreign economic policy.²

The Mannesmann Brothers, whose mining claims in Morocco the German government was not inclined to support vigorously enough against France, attempted to arouse public opinion and to force the hand of the Foreign Office by talk of "the age of iron." Germany must be freed from dependence on foreign nations for this strategic raw material, they argued, and they refused to compromise with French rival concessionaires on the ground that the patriotic objective of a German-controlled iron supply could never be attained in that way.³

Thirdly, governments have occasionally found it desirable to aid domestic interests in attacking foreign price-fixing

¹*Borsen Courier*, June 21, 1926; *Berliner Tageblatt*, June 19, 1926.

²See Bau, *op. cit.*, pp. 201-3; W. S. Culbertson in *Annals of the American Academy of Political and Social Science*, March, 1924, pp. 93-4.

³See Chapter 7.

War and the Private Investor

plans which threatened to affect them adversely, and private foreign investments have served as instruments of this policy. The most conspicuous example of this sort was the plan of Mr. Harvey Firestone for establishing rubber plantations in Liberia, undertaken in connection with the campaign of Secretary of Commerce Herbert Hoover against the Stevenson Plan, in which British producers sought to "valorize" rubber.¹ The United States State Department has also objected to loan flotations in the American market destined to assist foreign valorization schemes on potash and coffee.²

Finally, private investments abroad have been a factor in governmental efforts to combat the spread of financial panic during the world economic depression. The coöperation of private banking interests and governments in arranging the so-called "standstill" agreements when sudden withdrawal of funds from Germany threatened widespread disaster is well known. These arrangements related to investments which were of the short-term variety in intention, though the emergency necessitated their prolongation.

¹R. L. Buell, *The Native Problem in Africa* (N. Y., 1928), II, 846 ff. On the Stevenson Plan and other raw materials restrictions see B. H. Williams, *Economic Foreign Policy of the United States* (New York, 1929), Ch. 19.

²*Ibid.*, p. 403.

B. DIPLOMACY SERVES INVESTMENTS

CHAPTER 5

Type Cases: Samoa; Episodes from Persia, Venezuela, Haiti, Mexico

WE NOW leave the analysis of ways in which private investments of citizens abroad serve the purposes of diplomacy and turn to examine the other side of the shield: namely, How does diplomacy serve the purposes of private investors abroad? What precise and particular benefits are included in the term diplomatic "support?" Why do investors sometimes seek the aid of their government in foreign operations, and just what do they want when they do so? The systematic analysis to be undertaken in the next chapter will throw light on these questions. A few concrete episodes are likely to be illuminating, however, and will provide background. Hence, this chapter sketches the development of an international conflict situation centering about private investments and political rivalries in Samoa, and then picks out for very brief exhibit certain aspects only of other situations that have arisen in Persia, Venezuela, Haiti, and Mexico.

BUSINESS AND DIPLOMACY IN SAMOA

Until the Samoan Islands were divided between Germany and the United States in 1899, with territorial compensation to Great Britain elsewhere, they had been a diplomatic problem for all three powers during nearly three decades. Time after time petty embroilments of their consular agents in Samoa had embarrassed or irritated the home governments

War and the Private Investor

and international incidents had raised up antagonistic public opinions. Naval vessels had landed marines and had taken sides in native wars, which foreigners had stirred up; on one occasion the warships of the powers nearly came to battle among themselves. Insults to flags were alleged and avenged. International conferences met in Washington and in Berlin. Back of these tempests in the Samoan teapot and the deliberations of high policy which they called forth were two sorts of interests: the interests of private investors and traders, citizens of these powers, who wanted certain things from their governments; and the interests of naval strategists and political expansionists, who wanted certain things based upon more general considerations than those which related to Samoa only. We wish to examine particularly the bearing of interests of the first sort upon the course of diplomacy in and concerning Samoa.

First of all, how and why was diplomatic attention drawn to Samoa? From the side of the United States, the first political concern—outside of consular representation which, like other powers, it had maintained on the islands since the middle of the century for assistance to whalers and merchant vessels—was shown in 1871. It was stimulated by navy men, whose thoughts ran from the proposed Isthmian canal to Hawaii and Samoa as desirable naval bases along the routes to the North and South Pacific, and by two groups of private interests. The first was a group of land speculators in California, interested in profits to be made on property acquired in exchange for firearms and whisky. The second, and most important, was headed by William H. Webb, a well known shipbuilder of New York, who saw that the age of the commercial steamship was dawning and proposed in 1870 to establish a steamship line between San Francisco and Australia. The New Zealand government offered him a subsidy for that purpose, but he preferred to have it from the United States, and a subsidy bill introduced into Congress was looked upon with favor by the Department of State. When it failed to pass Webb took a subsidy from New Zealand and

Private Investments and Diplomacy

started the line, via Hawaii. Webb then sent his agent, Captain Wakeman, to find a place in the South Pacific in the direct line between Hawaii and Australia where his ships could stop and take coal, and on July 20, 1871, Wakeman arrived at Pago Pago, Samoa, "the most perfectly land-locked harbor that exists in the Pacific Ocean." His reports, sent to his employer, and to the Navy Department, and by the Navy to the Department of State, did not fail to suggest the possibility of establishing an American protectorate over the islands. There was a note of urgency in Wakeman's comments, for he found that the head of a German firm in Samoa, uneasy over Wakeman's mission, had "written some things since to the German government to establish a naval station with a view to a protectorate." Here, then, were the representatives of two firms, one German and the other American, almost simultaneously suggesting protectorates over Samoa by their respective governments. "Without any calculation or deliberation on the part of either government, seeds of future trouble were being sown."¹

From the German side, interest in Samoa came wholly through activities of this one firm—J. C. Godeffroy and Son, Hamburg. Its operations were in the nature of permanent investments, and on such a scale that throughout the period of controversy the German economic stake far exceeded that of any other power. Indeed, "the firm" dominated the situation in Samoa. The trading house of Godeffroy had been established in 1766 at Hamburg by a family of Huguenot refugees, and in 1857 it selected a base at Apia, in Samoa, and made that the center of its South Sea business. From 1864 the Samoan branch was under the energetic management of Theodor Weber, a young but domineering and clever man "built on Bismarck's lines." He has also been compared to Clive and Rhodes. Under his leadership the Godeffroy firm continued a merciless competition in the South Seas and, ac-

¹For the framework of this story, and particularly for the American angles of it, I am indebted to a recent study by George Herbert Ryden, *The Foreign Policy of the United States in Relation to Samoa* (New Haven, 1933). The above paragraph is based on pp. 43-55.

War and the Private Investor

cording to a French traveler's report in 1869, crushed all competitors in the region. English, Australian, and American traders disputed the market with each other and with the Germans, and not always by gentle means. There are stories of rival agents tempted on board ship, handcuffed, and then robbed of their whole booty of shells and cocoanut oil; other stories of the kidnapping of a competitor's native labor force. It was the policy of the German firm to found plantations, looking to a permanent business. The chief product was copra. In 1872 the firm's settlement in Samoa consisted of one manager, one cashier, eleven clerks, one harbor master, two engineers, ten ships' carpenters, two butchers, four plantation overseers, one surgeon, one surveyor, and many supernumeraries of all nationalities—half-breeds, Portuguese, and Chinese. The firm employed in general about four hundred Polynesians brought from the Savage and Line islands. The layout included a roomy inn, a shipyard for small ships, three plantations of about four hundred acres, and uncultivated land to about twenty-five thousand acres, all very fruitful. This land had been bought for not more than seventy-five cents an acre, paid chiefly in munitions, weapons, or articles of trade loved by primitive peoples: cotton shirtings, tobacco, brandy, gin, wine, flour, sugar, shears, needles, yarn, knives, and the like. The profit on cargoes from Europe was great. According to express regulations no employee was allowed to dispose of any article for less than one hundred per cent above cost, including freight and commissions.¹

These were the American and German interests. Those of Great Britain came mainly through Australia and New Zealand, which were interested not only in commerce, but in a stopping place on the steamship route which would provide shorter postal communication with England via the

¹Material on the Godeffroy firm and the German angle in Samoa is from Richard Hertz, *Das Hamburger Seehandelshaus J. C. Godeffroy und Sohn 1766-1879* (Hamburg, 1922). The above paragraph depends on an official report by H. B. Sterndale, a New Zealander, written in 1874 and quoted by Hertz from H. S. Cooper, *The Coral Lands of the Pacific* (London, 1882), p. 231.

Private Investments and Diplomacy

newly-finished transcontinental railway in the United States, and in their own security against attack by naval powers. The London Missionary Society also had an establishment in Samoa, which added to English interest and influence. In 1872, and again in 1873-4, New Zealand showed much popular and official concern lest the United States or Germany take Samoa, and there was talk of a New Zealand Monroe Doctrine. Suggestions went to London regarding a British protectorate, but the Foreign Office showed no enthusiasm.¹

Indeed, the governments of all three powers rejected the notion of assuming responsibilities in Samoa at this time. It was 1884 before Bismarck was ready to reverse his policy of not seeking colonies. In England colonial acquisition was in abeyance. The United States had no precedent for overseas expansion, and Congress and public sentiment opposed such entanglements. Yet all three powers were being invited to act in Samoa: Germany by the Godeffroy firm, England by the New Zealanders, the United States by private shipping and land speculating interests and naval men.

Captain Wakeman, agent of the W. H. Webb shipping line, had proceeded after his exploration of Pago Pago to Hawaii, where he talked with United States naval officers and the United States minister resident. The latter was among those urging a subsidy for Webb, and was readily moved to action on Wakeman's suggestions regarding Samoa. So it was not by accident that Commander Meade appeared in Pago Pago harbor on the *Narragansett* early in 1872 and negotiated a treaty with the native chief. This document granted "the exclusive privilege of establishing in the said harbor of Pago Pago, island of Tutuila, a naval station, for the use and convenience of the vessels of the United States Government," in return for which the chief and his successors and their people were "to have the friendship and protection of the great Government of the United States of America."² The treaty,

¹Ryden, *op. cit.*, pp. 76-81.

²Commander Meade's address to the natives of Tutuila, as reported by himself to the Navy Department, shows what was occupying his mind: "The Government of the United States of America is about to establish commercial relations with the

War and the Private Investor

together with Captain Wakeman's report to W. H. Webb regarding the commercial and strategic value of Pago Pago harbor came to the Department of State through the Navy Department, and Secretary Fish promptly recommended the ratification of the treaty. President Grant just as promptly sent it to the Senate, recommending favorable consideration "with some modification of the obligation of protection which it seems to imply." Through the whole proceedings, from the actions of minister resident and naval officers in Honolulu, to the President's message enclosing Wakeman's report, "it is clear that the interests which the United States government wished at that moment to support were those of the Webb steamship line."¹ The treaty died in the Committee on Foreign Relations of the Senate.

Also in 1872, a petition from the natives of Samoa arrived in Washington asking the President to annex the islands. The natives now and later seem to have been genuinely desirous of tutelage by some strong state in order to avoid the dissensions which foreign adventurers were continually setting up among them, but such petitions were easily secured from the child-like Samoans, and this one came through a certain J. B. M. Stewart, who forwarded it to the shipbuilder, Webb, to be given to the President. Stewart, interestingly enough, was associated with a group of Californians who had organized the Polynesian Land Company and had acquired many acres on options, chiefly in exchange for arms and ammunition, during the civil war which had kept Samoa in a turmoil for several years. The land company naturally looked with favor upon the Webb proposal to use Pago Pago for a

Samoan Islands by means of the line of Steamers now plying between California, Hawaii, New Zealand and Australia, and wishes in its own interest as well as that of its citizens to secure a convenient port in the Samoan Islands to use as a coaling station and resort for its ships of war which are to cruise in the South Seas to protect commerce. I have come to Pago Pago as it is the finest harbor in the islands and the key to Samoa, to survey and examine it for that purpose and to secure from the Chief of Pago Pago such rights and privileges as will prevent other Nations from acting in a way adverse to the interests of American citizens or to your injury as a free people and the rightful owners of the soil." (Quoted in Ryden, *op. cit.*, p. 66.)

¹*Ibid.*, p. 73.

Private Investments and Diplomacy

coaling station, since this would enhance the value of its claims, but these investors saw even greater advantage in an American protectorate which would tend to insure their holdings against possible repudiation of contracts by island chiefs and would provide a free market in the United States for the products of the plantations they apparently hoped to establish.¹

Colonel A. B. Steinberger, a man of education and some means, soon went out to Samoa as a special commissioner of the United States government to survey and report. The arrangements for his going were made by W. H. Webb, who was still interested in a protectorate as well as a subsidy, and by Steinberger himself, through President Grant. The three appear to have been connected by ties of personal friendship. Steinberger served without pay, and the expense allowance from the Department of State must have been supplemented by himself or the Webb line. He made a great impression on the natives by giving them the advice of the Secretary of State not to sell their land,² and, finding them assembled in a great conclave to settle their dissensions and agree on a form of government, he helped them frame a constitution and laws. There was "no little difficulty" in getting the coöperation of the German consul (Weber, at the same time manager of the Godeffroy firm, who had also protested against Commander Meade's treaty at Pago Pago) and certain other white residents. They wanted all past land sales confirmed, debarring future investigation, but Steinberger refused to accede. He returned to Washington early in 1874, bringing with him petitions from natives and leading foreign residents, among them English missionaries, that the United States should take a protectorate or annex Samoa and send Steinberger back as the first governor.³

¹*Ibid.*, pp. 83-4.

²He saw the Polynesian Land Company's agents at work and reported that the San Francisco stockholders were, in his opinion, "innocent and highly respectable gentlemen, whose money has been squandered and their reputation stained by adventurers representing them on the islands." (*Ibid.*, p. 95.)

³*Ibid.*, Ch. IV.

War and the Private Investor

Steinberger pulled wires for annexation, but the government deemed it inexpedient in the absence of a wide and favorable public sentiment, to take a step so opposed to the traditions of the United States. He did succeed in getting sent back to Samoa on board a war vessel as special agent of the United States, paying his own expenses, and there he continued to act as though Samoa would sooner or later be an American protectorate. "That the State Department in harmony with the Navy Department would have favored annexation or protection, and was merely waiting for a change in sentiment in Congress is evident from the attitude it assumed toward Steinberger."¹ On the strength of the anticipation that he would soon have real power in the islands, Steinberger had visited Hamburg from the United States and signed an amazing secret agreement with the Godeffroy firm. He was to give it a monopoly of the copra trade in return for a considerable financial consideration in the form of commissions. On purchases by the Samoan government for material from the company he was to receive ten per cent. He was to see that all land titles hitherto acquired by the company from the natives were recognized and confirmed. In Article 2 Steinberger, who, "because of his future position at Samoa and the home endorsement, will evidently exercise a paramount influence in the Samoan Islands," pledged himself to the interests of Godeffroy altogether, promising "to avoid all other business connections in toto in America, Europe and Samoa."² Thus he prepared to feather his own nest, and the firm revealed what it really wanted from government in the islands.

Steinberger made himself premier of Samoa in 1875, resigned his United States commission, and ran the native government as a sort of benevolent despot. He soon came into conflict over land claims with the American consul, Foster, who was also agent of the Polynesian Land Company. (These double affiliations, in which the same man represented the

¹Ryden, *op. cit.*, p. 130.

²*Ibid.*, pp. 115-16, quoting the contract.

Private Investments and Diplomacy

private interests of business and the public interests of a great power as its consul were a common thing in Samoa and other out-of-the-way places. Theodor Weber was the outstanding example.) British missionaries and officials, at first favorable to Steinberger because he gave the islands orderly government, turned against him shortly after the annexation of Fiji by Great Britain. This, coming in 1875, made it appear to the annexationists in New Zealand that Downing Street might also be persuaded to take Samoa. Consul Foster seized Steinberger's boat, the *Peerless*, which had been bought on an advance from the Godeffroy firm. The captain of a British war vessel, the American and British consuls, and fellow conspirators talked the native king over to their side, and British marines arrested Premier Steinberger. He was closely confined on the British warship for two months and then deported to Fiji.¹

Now the native king, who had been turned against Steinberger, was at outs with the rest of the Samoan government. British consuls, missionaries, and business interests were intriguing hopefully on behalf of a British protectorate. Theodor Weber, the German consul and firm manager, was angry because after Steinberger's departure he found it impossible to make a satisfactory treaty with the Samoans for the protection of the Godeffroy interests and because the native government refused to sell him a quantity of copra it had accumulated. He began movements to overturn this government. The American acting consul hoisted the United States flag over that of the Samoans in order to avert what he regarded as imminent British annexation, and he seems to have been supported in this by Weber. Any two consuls were usually able to unite against an increase of influence by the third. At this time the American consul who had succeeded Foster was in Washington urging the need for a treaty of

¹Steinberger's efforts to get damages from Great Britain for his imprisonment were assisted by Washington, but without success, for the British government pointed out that the action had been taken at the request of the American consul. Nevertheless, the British naval officer was dismissed from the service. (*Ibid.*, p. 146.)

War and the Private Investor

commerce to protect American interests in Samoa, and incidentally defending himself against attacks that he said were inspired by the Polynesian Land Company because he had opposed their scheme to unload land deeds on the Samoan government in return for government bonds. He referred also to Consul-Manager Weber's failure to bribe him to divert trade from the United States to the Godeffroy company.¹

These happenings are enough to show the confusion, intrigue, and cross-purposes which characterized the situation in Samoa during the rest of the seventies and eighties. A whole calendar of similar episodes will therefore be passed over in favor of a mere outline of the events of chief political importance.² In 1877-8 a Samoan prince was commissioned by the native government, undoubtedly acting under the inspiration of the American consul, to go to Washington and seek annexation or protection from the United States. The Navy Department "warmly" favored the Samoan proposition, as it had long desired outposts in the Pacific, and President Hayes and Secretary of State Evarts were also inclined to be sympathetic, but they saw that Congress and the country were in no mood to consent. So a treaty of commerce and friendship was negotiated instead, and in February, 1878, it received the unanimous approval of the Senate.³ Germany and Great Britain followed suit with treaties made in 1879. The most favored nation clauses in these treaties prevented the Samoans from offering a protectorate to Great Britain alone when they seemed inclined to do so in August, 1879, so they addressed all three powers, saying that "We are of

¹Ryden, *op. cit.*, Ch. VI.

²The reader will find a fascinating chronicle of exciting times in Samoa and also something of a literary masterpiece in Robert Louis Stevenson's *A Footnote to History*. Stevenson came to live in Samoa for his health, and out of his first-hand acquaintance with natives and whites his pen has given us inimitable characterizations of the German firm and its managers, of traders, missionaries, speculators, consuls, and the other types that congregate in "backward" countries, and of the bewilderment of the Samoans enmeshed in their own culture, the "civilization" of the missionaries, business rivalry, and great power politics.

³Ryden, *op. cit.*, p. 199.

Private Investments and Diplomacy

opinion that we shall have no peace until we give our own authority to some great Government." In 1880 the consuls established what amounted to a joint protectorate over Samoa and the following year, with the aid of foreign warships, stopped the series of civil wars which had broken out afresh on the death of the old king and which had resulted in damage to plantations. They brought the native factions to compromise by recognizing one leader, Malietoa, as king, while making the rival chief, Tamasese, a "vice-king." There followed several years of peace, broken in 1884 when Bismarck's decision to reverse his policy and seek colonies brought on diplomatic difficulties that lasted until the Berlin Conference of 1889.¹

It is now necessary to return to the Godeffroy firm and its affairs. In the sixties Weber had shown no interest in politics. It was his purpose to attract as little public and private attention as possible and quietly to build up a trade monopoly for his firm. He was a consular agent of the city-state of Hamburg from 1865, of the North German Alliance from 1868, and of the new German Empire after 1872, but the main use he made of his office in the early days was to apply the consular seal to trade treaties with independent tribes, thus making them more impressive. In the seventies, on the contrary, Weber and the Godeffroy House did begin to exert themselves in order to interest the German government and the German public in the South Seas, for now they had an established position, and they wanted to protect their nearly complete monopoly against the counter-attacks of other traders, who were receiving political aid from their governments. The Godeffroy house was in a favorable position to influence public opinion and government in Germany. The long-established firm was one of the best known in Hamburg. Senator César Godeffroy himself, "the South Seas King," was the incarnation of the bourgeois grandseigneur. His residence was the finest in the region and run in the most luxurious manner. The banquets he gave in winter and the summer

¹*Ibid.*, Ch. VIII.

War and the Private Investor

hunting dinners on his estate were famous. By his direction the ship captains of his firm brought home South Sea flora and fauna which were elaborately catalogued and described in a richly illustrated journal of the Godeffroy Museum. In April, 1871, a newspaper closely connected with the Godeffroy House, the *Norddeutsche Allgemeine Zeitung*, carried an article on German enterprises in Polynesia, and thereafter press references to German interest in the South Seas never ceased entirely. All this was practical propaganda for the colonial idea, which won more and more adherents after the unification of Germany in 1871. The fortunes of the Godeffroy firm furnished the first occasion for Bismarck to test the strength of this colonial sentiment.¹

In 1878 the Godeffroy House ran into financial difficulties. It had expanded too widely, had experienced losses during the civil wars in Samoa, and Godeffroy had made bad speculations in European mines and real estate. There was an attempt to raise additional capital by turning the enterprise into a stock company, but the business public would not risk its money on the shares. So Godeffroy turned to the German government, which he had been attempting for some time to interest actively in South Seas colonization. On January 25, 1879, he wrote to the Secretary for Foreign Affairs, the elder von Bülow, who was a distant relative and acquaintance of the House, that in order to continue its huge task for the honor of Germany the Samoan enterprise must have an operating capital of two or two and one-half million marks. Later he proposed that the Reichsbank or the Prussian state bank be induced to assist him; otherwise he must turn to England. Bülow sounded out the officers of these two institutions, but both rejected emphatically the notion of participating in the South Seas business. On March 8th Godeffroy wrote that a crash was imminent and pleaded for a direct appeal to the highest authorities, who in turn might influence the Reichsbank or the Prussian state bank. Bülow then saw Bismarck on March 18th and discussed everything with him.

¹Hertz, *op. cit.*, pp. 54-8.

Private Investments and Diplomacy

The director of the Disconto bank, von Hanseemann, who was close to Bismarck and also a business friend of the Godeffroy House, here entered the affair and was willing to advance money, but only on condition that the risk be guaranteed by the Foreign Office. This Bismarck rejected, but proposed instead that the government through the Bundesrat and the Reichstag should either buy some of the company's shares or accord it a subsidy.¹

While preparations for this move were being made, von Hanseemann went to work with his son-in-law, von Kusserow, a colonial enthusiast who was in charge of relations with overseas enterprises in the foreign office. They sought to find potent associates of the Godeffroy firm who would keep it afloat until the government could act. The presence of such associates in the affair would also serve to answer the charge that the government was seeking to subsidize a single private firm. But so great was the lack of confidence in the South Seas enterprise that nothing could move either Hamburg or Bremen to assist. Thereupon Godeffroy was forced to mortgage the greater part of his shareholdings to the London house of Baring Brothers, which had advanced a million marks the year before and now loaned another one and one-half million on the assumption that the German government was going to come to the rescue. At the end of November J. C. Godeffroy, Jr., returned from London with the news that Baring Brothers had suddenly refused to prolong the credits previously advanced. Appeals to the government brought no action, and on December 1, 1879, the firm went into bankruptcy.

A distrust of English ambitions in the South Seas had already been awakened among wide circles of the German people. Now the fall of the Godeffroy House was portrayed as the well-planned intention of Baring Brothers and as the English answer to the German-Samoan treaty of the previous year. The matter was so described to Bismarck in a report from one of his advisers on the 5th of December, 1879. On

¹*Ibid.*, pp. 59-60, based on foreign office documents.

War and the Private Investor

December 8th the missionary Fabri, author of the well-known and extremely effective pamphlet "Does Germany Need Colonies?", addressed a passionate memorandum "The Suspension of the Godeffroy House and Its National Importance" to the Imperial Vice-Chancellor. He could not recall when the young German Empire had suffered a worse humiliation in its international relations. The government must take a hand and remove this shame from the German name. On the 15th the Crown Prince asked for a complete explanation of Samoan affairs, which was furnished him by von Kusserow.

On the 14th and 15th of December, the banker von Hanse-mann, another banker and personal financial adviser to Bismarck, von Bleichröder, an undersecretary in the foreign office, and the Godeffroy father and son conferred regarding the founding of a new company which should have a capital of ten to twelve million marks for taking over all plantations and other property of the old firm. As the financial support of the Imperial Government was foreseen in a pronouncement by Chancellor Bismarck on the 5th of January, 1880, the capital stock, finally set at eight million marks, was over-subscribed by three million in spite of energetic opposition from the free-trade press. Of these eleven million marks nine million were subscribed by the general public and only two came from the banking consortium. Numerous letters came to the Chancellor and to the foreign office from private persons who wanted information regarding immigration and settlement in the South Seas. The colonial era of the empire seemed to have dawned.¹

The Samoa question was laid before the Reichstag on April 14, 1880, accompanied by a detailed report.² Bismarck, who had come to the view that the transfer of the Samoa enterprise to English hands not only would rob Germany of her possessions in the South Seas but would also

¹Hertz, *op. cit.*, pp. 60-63.

²Whitebook, *Deutsche Interessen in der Südsee*, Reichstagsdrucksache No. 101, April 14, 1880.

Private Investments and Diplomacy

injure the dignity of the Reich as a whole, proposed that the government should guarantee four-and-one-half per cent dividends on the eight million marks capital of the new company for twenty years. The Reich would thus accept the risk of having to pay out a maximum of three hundred thousand marks a year. It is an interesting commentary on the ways of nations that without the necessity of parliamentary consent the government had been spending about seven hundred thousand marks every year since 1877 for the maintenance of warships in the South Pacific to protect German enterprises, mainly the Godeffroy firm!¹ The Reichstag refused, by a narrow majority, to vote the guarantee. This convinced Bismarck that the time was not yet ripe to embark on a policy of state-directed colonialism and he waited a few years longer—until 1884. Meanwhile the newly organized company had to be dissolved, but it was found possible despite the lack of government subsidy to obtain enough private capital so that the Baring debts could be paid off and the Godeffroy possessions further exploited.² This was done under the name of “Die Deutsche Handels und Plantagen Gesellschaft für Süd-See Inseln zu Hamburg,” dubbed by humorists “the long-handle firm.”

We now go back to Samoa and jump to 1884, when Bismarck embarked on his colonial policy in Africa and simultaneously stiffened the political backing of German interests elsewhere. Theodor Weber was no longer German consul himself, but the German consuls naturally were his partisans in most things, if not entirely under his control, and German warships came to Samoa “to fetch and carry for the firm.” Weber and Dr. Stübel, who was then consul, pressed King Malietoa for a treaty putting the native government practically under German tutelage through a system of German advisers and judges who could see to the protection of the

¹ Alfred Zimmermann, *Geschichte der Deutschen Kolonialpolitik* (Berlin, 1914), p. 19, and note 21.

²*Ibid.*, p. 20. See also on the whole affair, Maximilian von Hagen, *Bismarck's Kolonialpolitik* (Stuttgart, 1923), pp. 70-83.

War and the Private Investor

firm's land claims, its native laborers, and the punishment of trespassers on its plantations. Malietoa signed the treaty, complaining to the other consuls that he did so under threat and without being permitted to see its contents. When he remained intractable Dr. Stübel seized the chief town, Apia, as a "reprisal," hoisted the German flag, and proposed to hoist it also over the seat of government (January, 1885). Simultaneously, rebellions broke out against Malietoa, promoted by the Germans. The American and British consuls protested. Diplomatic exchanges passed between Washington and Berlin. Malietoa tried to move his capital to Apia; German marines drove him out and hauled down the Samoan flag. The United States asked Berlin for "fulfillment of solemn assurances heretofore and recently given that Germany seeks no exclusive control in Samoa." Early in 1886 the commander of the German squadron in Samoan waters recognized Weber's rebel leader, Tamasese, as the real ruler. The American consul met this move by hoisting his flag over that of Malietoa and declaring that the Samoan islands were under the protection of the United States (May 14, 1886). His action met disavowal in Washington; Berlin also instructed Dr. Stübel to haul down the German flag in Apia.¹

The three powers now agreed that each would send a special commissioner to Samoa to obtain fresh and unbiased information. Then a conference took place at Washington (1887), but agreement proved impossible. Germany proposed that a mandate for the preservation of order in Samoa should be given to the power with the greatest interests there—namely, Germany. Great Britain had been won over to this point of view, but the United States refused to consent. Another sticking point was the composition of a court of land claims which everyone agreed must be set up. That proposed by the German conferee hardly seemed designed to function independently, and this is less surprising in view of the fact that the diplomat was ably advised by Theodor Weber,

¹Ryden, *op. cit.*, pp. 277-317.

Private Investments and Diplomacy

who had come all the way from Apia to Washington to attend this conference.¹

Meanwhile, troubles multiplied in Samoa. In January, 1887, a Bavarian ex-officer and adventurer, Captain Brandeis, started drilling the followers of the rebel chief, Tamasese. After the failure of the Washington conference a German squadron came to Samoa, waited until the departure of the Sydney mail steamer cut the islands off from the world for three weeks, sent an ultimatum to Malietoa demanding indemnity for an alleged insult to the German emperor and for fruit alleged to have been stolen from German plantations, landed seven hundred marines and six guns, proclaimed martial law, ran up the German flag over the government house, and recognized Tamasese as king. The American and British consuls continued to recognize Malietoa, but the German warships hunted him, he voluntarily surrendered to avoid war on his people, and a German naval vessel took him away from the islands. Now Captain Brandeis stepped forth in his real character and for a year and a half ruled Samoa as adviser to the puppet-king, Tamasese, much in the Steinberger manner. The difference was that Steinberger had no support from the United States government, while Brandeis could depend upon German warships to support and protect him. American property owners in Samoa began to experience difficulties with Weber soon after the Brandeis-Tamasese regime started, and they anticipated that a land court would be set up to engineer through the claims of the German firm and ignore their own. One of them left for the United States in order to bring his case directly to the attention of the American government. Weber also made a bold bid at this time for the monopoly of copra trading. The governors appointed by Tamasese were instructed to forbid the selling of copra or the mortgaging of copra or lands except to the German firm. Furthermore, the new government more than doubled the taxes to be paid by the natives, and as these taxes had to be raised by mortgaging the copra crop to the

¹*Ibid.*, Ch. X.

War and the Private Investor

German firm, and the money could then be spent by the firm-controlled government in building roads to its plantations, the whole system was admirably designed for business --except that Americans complained when their rights were "placed at the mercy of the government of a rival firm," and British officials forced the release of a Samoan who had been imprisoned for selling copra to a British company, and the natives rebelled.

The American consul, merchants, and property owners importuned Washington for strong action, suggesting a temporary occupation of the islands and a protectorate. American warships, as well as German and English, frequented the harbor at Apia. The American officers were under instructions from the Navy Department to "intervene vigorously, should occasion arise, to protect the persons and property of American citizens" in Samoa.¹ Commander Leary of the United States vessel *Adams* sent a protest to Captain Fritze of the German *Adler* against a contemplated bombardment of anti-Tamasese villages and backed it up by clearing his decks for action.² Again he intervened on behalf of an American whose property was being damaged by Tamasese warriors. A German landing party attempting to disarm anti-Tamasese natives was repulsed; twenty German sailors and officers were killed and thirty wounded. The Germans said the native resistance had been directed by an American correspondent named Klein. This incident immensely heightened the already great tension in Samoa, and the excitement was reflected in Europe and America. The German consul proclaimed martial law in Samoa, but was rebuked by Bismarck, who is reputed to have remarked that his agent had contracted *morbus consularis*.³ Then in March, 1889, a terrific hurricane struck the overcrowded harbor of Apia, destroyed or disabled all the ships of war; and somewhat calmed the political situation.

¹*Executive Letter Book*, Navy Department, October 12, 1888, quoted by Ryden, p. 416.

²See Robert Louis Stevenson's dramatic account, *A Footnote to History*.

³E. Lavisse, *La vie politique à l'étranger*, 1889, p. 455.

Private Investments and Diplomacy

The more dramatic story is that this "act of God" supervened in the nick of time to prevent a naval battle in Samoa and war among the powers, but as a matter of fact Germany, England, and the United States were already far along with preparations for the Berlin conference of 1889 which "settled" the Samoan question. The settlement consisted of a tripartite protectorate, or *condominium*, ruling through a native government advised and controlled by foreigners whom the powers commissioned for the purpose. This government of wheels within wheels, watched over by jealous rival consuls and supervised by three foreign offices at a distance, did not work well. In 1899 the powers struck a new bargain; Samoa was divided between Germany and the United States (which got Tutuila and the harbor of Pago Pago), while Great Britain received its share in the form of concessions from Germany on colonial issues in Africa and the Pacific. Bearing on the justice of private land claims in Samoa, a court of arbitration set up by the treaty of 1889 found that 56 per cent of the German claims deserved confirmation, 3 per cent of the English and 7 per cent of the American.¹

THE REUTER CONCESSIONS IN PERSIA

In 1872 the Shah of Persia issued a concession to Baron Julius de Reuter which as Lord Curzon said, "literally took away the breath of Europe and handed over the entire resources of Persia to foreign hands for a period of seventy years."² It empowered the Baron to build a railway from the Caspian Sea to Teheran and thence to the Persian Gulf, and gave him the exclusive right to establish all branches deemed worthwhile. The Persian government was to guarantee an annual interest of five per cent on all capital employed, plus two per cent annually for amortization. In addition, Reuter received a monopoly of tramway rights, all the land necessary for the railway, and the exclusive privilege for seventy years (the duration of the concession) of exploiting

¹Ryden, *op. cit.*, p. 536.

²*Persia and the Persian Question* (London, 1892), I, 614.

War and the Private Investor

coal, iron, copper, lead, oil, and other mineral products throughout the Persian empire. He was to administer the customs for twenty-four years, to have the exclusive right to exploit the state forests and to build dams, wells, canals, and the like. His company was to be given preference over all others in the construction of various types of public works, and if in the future the Shah decided to grant a concession for the establishment of a bank Reuter was to have preference over all other applicants. The Reuter concession, obtained after the customary generosity had been shown to Shah and courtiers, practically farmed out the economic resources of Persia.¹

It is instructive to see what assistance the concessionaire thought he might need from his home government. Under date of September 12, 1872, Baron de Reuter—a financier of German-Jewish extraction, but a naturalized Englishman—addressed a letter to Granville, Secretary of State for Foreign Affairs. In undertaking the gigantic work in Persia, said the Baron, it was his desire not only to improve the social condition of the Persians and to open up their natural resources for the benefit of the world at large, but also (alluding to the possible services of investment to diplomacy) “to render my concession of the highest value to Great Britain.” He pointed out that the Russians were making great progress with their railways toward the Caspian Sea. “Under these circumstances, I need not point out to your Lordship the importance of my concession . . . which, as before mentioned, is of an exclusive character . . . I desire to serve this my adopted country, by introducing my enterprise under English auspices alone; and I shall have pleasure in so doing without soliciting a subsidy or other material support from Her Majesty’s Government. I nevertheless desire to feel assured that, in the event of differences arising between the Persian government and myself, Her Majesty’s Government will recognize the validity of my scheme, and protect

¹Mahmoud Afschar, *La Politique Européenne en Perse* (doctoral thesis at Lausanne, published Berlin, 1921), pp. 197 ff.

Private Investments and Diplomacy

my rights, as a British subject, so far as may be in their power." The reply from the Foreign Office was cautious and non-committal. ". . . Whilst Her Majesty's Government would view with satisfaction the efforts of the Shah's Government to increase, by means of railways and roads, the resources of Persia, they cannot bind themselves officially to protect your interests whilst carrying out your engagements with that Government."¹

At the same time, news of the Reuter concession aroused great indignation in St. Petersburg. The Russian minister at Teheran, who had known nothing of what his English colleague and Reuter had on foot until publication of the text of the Shah's firman, was disgraced by his government for having let the English carry off such a victory. When the Shah visited Europe for the first time in 1873 he found a rather cool reception in Russia. Feeling also arose in Persia against such a surrender of monopoly rights to foreigners. Finally the Shah yielded to the pressure upon him and annulled the concession, alleging that an insufficient amount of work had been carried out by the concessionaire within a stipulated time. The Russians, by the way, had done their best to cause delay by hindering the transport of construction materials across the Caucasus. The British government allowed the matter to drop without serious protest. This was before the days of feverish competition among the powers for control of strategic economic privileges in Asia and Africa. Furthermore, a recent change of government in Great Britain had replaced Lord Beaconsfield, who had looked very favorably on the Reuter concession, by Lord Granville of the Liberal Party. The Liberals, influenced by the doctrines of the Manchester School, opposed governmental intervention in private enterprise abroad and wished to avoid a conflict with Russia.²

It was 1889 before Baron de Reuter received any compen-

¹Correspondence between Her Majesty's Government and Baron de Reuter . . . , *British Parliamentary Papers*, 1873, LXXV, 803.

²Afschar, *op. cit.*, p. 200.

War and the Private Investor

sation on account of his annulled concession. Then Sir Henry Drummond Wolff took over the legation at Teheran under instructions to try to obtain some grant in his favor as indemnity for the failure of the earlier project, and succeeded in securing him the right to found the Imperial Bank of Persia.¹ Mining rights were also granted to the Bank. These were sold to the Persian Bank Mining Rights Corporation, but in 1894 it "joined the list of unfortunate British gambles in Persia."² The Bank itself, however, lived on, gained the exclusive right of note issue, and became the agency through which British politics and finance coöperated in the Middle East.

CIVIL DISORDER AND FOREIGN CLAIMS IN VENEZUELA³

At the opening of the twentieth century Venezuela was in a tumultuous and bankrupt condition. The country had been torn by civil strife and political corruption; the people and resources alike had been the prey of adventurers and rascals; the ruling class, consisting of only about six per cent of the population, had not only exploited the country and wasted its resources, but had engaged in factional war over the plunder. Self-seeking politicians had borrowed abroad and had bargained concessions to foreigners, thereby introducing an international element into the domestic discord.

From 1898 to 1902 Cipriano Castro, bold cattleman of the western mountain region, was carrying on a bloody civil war to secure the reins of power over the government and conditions were even worse than usual. Foreigners, who suffered along with the Venezuelans, appealed to their home governments for redress. They were unwilling to submit their complaints to the exclusive jurisdiction of the Venezuelan government, as Castro demanded, for they regarded him as a dictator who paid little respect to law or consti-

¹Sir H. Drummond Wolff, *Rambling Recollections* (London, 1908), II, 340.

²Herbert Feis, *Europe the World's Banker: 1870-1914* (New Haven, 1930), p. 362.

³This brief sketch is based mainly on J. Fred Rippy, *Latin America in World Politics* (New York, 1928), Ch. XI.

Private Investments and Diplomacy

tution. By the end of 1902, Germany, England, and Italy were ready to undertake joint action to obtain satisfaction for the losses and injuries which had overtaken their citizens in Venezuela.

As usual in such cases, the claims fell into two categories: those based on contractual obligations of the Venezuelan government—bonds in payment for public works, concessions—and those arising out of losses and personal injuries suffered during the disorders. The main German demands, for instance, related to interest seven years in arrears on Venezuelan bonds, dividend payments guaranteed by Venezuela on a German-built railway, and indemnity for damages, injuries, forced loans, and inconveniences suffered during the civil war of 1898–1900. The basis for the demands of England and Italy differed only in detail, while similar claims were being brought forward by citizens of the United States, France, Belgium, Mexico, Spain, the Netherlands, Sweden, and Norway.

When the government of Venezuela stubbornly reiterated that its own courts had exclusive jurisdiction in all such matters and absolutely refused to arbitrate, England and Germany agreed on a course of action and presented an ultimatum. This was in November, 1902. The answer was not satisfactory. On December 9th four Venezuelan gunboats were seized and three of them sunk. Shortly afterwards a blockade of Venezuelan ports began, Italy joined the other two powers, and a German and British cruiser bombarded two forts at Puerto Cabello in retaliation for the seizure of a British steamer and an alleged insult to the British flag. At this point Venezuela submitted an arbitration proposal through the United States, the other governments accepted it in principle, and coercive measures ceased, for the time being.

The international importance of the protective action which the European powers undertook on behalf of their citizens was, of course, tremendously enhanced by the danger that public opinion in the United States, in jealous support

War and the Private Investor

of the Monroe Doctrine, might take alarm and demand violent measures against the blockaders. The powers took pains to keep Washington informed, and the American Secretary of State announced that although it was to be regretted that European powers should use force against Central and South American countries, the United States could not object to their taking steps to obtain redress for injuries suffered by their subjects, providing that no acquisition of territory was contemplated. Germany and England now presented detailed memoranda of their claims and continued the blockade. Early in 1903 German guns bombarded Fort San Carlos, arousing much heat in the United States. President Roosevelt sent Admiral Dewey into the Caribbean with a fleet and threatened to use force against Germany in case it showed signs of seizing territory; he was determined not to have a Latin-American Kiaochow. Eventually the crisis passed, the matters in dispute were submitted to arbitration (with the exception of certain "first rank" claims), and the clamor of the yellow press in the United States died down. The Hague Court and mixed commissions set up for the purpose finished their decisions in 1904. "It is interesting to note, as bearing upon the justice of the claims, that barely one-fifth of them were allowed by these mixed commissions."¹

THE HAITIAN NATIONAL RAILWAY²

Contracts made by the Haitian government in 1905-6 with a French stock company, the *Compagnie Nationale des Chemins de Fer d'Haiti*, were revised in 1910 to include a six per cent guarantee of interest by the government on the railway bonds, up to a maximum of \$20,000 per kilometer. The company, which represented American interests, agreed to build the railway within five years, under penalty of fore-

¹Rippy, *op. cit.*, p. 192.

²Largely based on the careful summary of available evidence contained in R. L. Buell, "The American Occupation of Haiti," *Foreign Policy Association Information Service*, V, Nos. 19-20, November 27-December 12, pp. 334-5.

Private Investments and Diplomacy

closure except in case of *force majeure*. After twenty years Haiti might repurchase the road, and in no case were differences in interpretation of the contract to give rise to diplomatic action. At the same time, the government granted Mr. J. P. McDonald, who backed the railway project, a fifty-year concession for raising bananas on public lands to a distance of twenty kilometers on each side of the railway. For fifteen years McDonald was to have a monopoly on the export of bananas. It has been charged that these contracts were secured by bribery.¹ At any rate, they were very unpopular in the island and were used by revolutionary leaders to incite the people against the government. Ownership of the railway had passed to the Grace Syndicate, and the National City Bank of New York had loaned \$500,000 to the company building the road. Mr. R. L. Farnham, Vice President of the National City Bank, was president of the railway. In 1913 the company completed three sections of the railway, 103 kilometers, but the Haitian government refused to accept them on the ground that the work was ridiculously defective. The management was also charged with extravagance. In spite of the clause in the contract in which the company had agreed not to have recourse to diplomatic action, it then appealed to the Department of State, and the United States government induced Haiti to accept the sections and to guarantee the bonds issued against them.

In August, 1914, the Haitian government declined to make the payment due on these bonds. It contended that the company had not lived up to its contract, especially that only six sections of the road had been delivered instead of the eleven contracted for, and notice was given that Haiti intended to take over the company's property. The company alleged that it had been obstructed by revolution and that its property had been destroyed. In these circumstances the company again appealed to the State Department, and on September 23, 1914, Secretary Bryan informed the American minister that if the Haitian government took possession of

¹Paul H. Douglas, "The National Railway of Haiti," *Nation*, January 19, 1927.

War and the Private Investor

the property the United States would take the measures which it might deem necessary to safeguard the rights of the company. Foreclosure proceedings were suspended. Meanwhile the internal situation of Haiti went from bad to worse. In July, 1915, the United States resorted to military intervention, and at that time the railway question was still pending.

Under the influence of the United States occupying authorities, a Haitian loan was issued to liquidate the difficulties of the National Railway, and in 1917 the government agreed to abandon foreclosure proceedings, while the company agreed to adopt a more direct route. The revenues of the road barely equalled operating expenses from 1914 to 1922, so neither the president nor the directors of the company received salaries. In 1920 a New York court granted a request for a receivership. Mr. R. L. Farnham, president of the company, was made receiver. In 1924 the court ordered compensation to the receiver fixed at \$100,000, covering back salary from 1911, fixed his compensation for the next year at \$18,000 (which was not paid on account of the financial condition of the road), and awarded Sullivan and Cromwell, counsel for the receiver, \$80,000 for legal services. In 1923 an arrangement was made whereby the Haitian government agreed to pay off about \$2,000,000 of interest arrears on the railway bonds and in addition to exchange railway bonds for government bonds at the rate of 75 per cent. The holder of Haitian National Railway bonds thus received under this settlement \$35.25 in the form of back interest since 1914 on each bond of a little over \$96, and 75 per cent of the face of the bond in new Haitian government securities. What had been a contingent obligation of the government thus became an absolute obligation, with the annual interest charge reduced by 25 per cent.

The use of United States diplomacy under conditions which amounted to virtual dictation for the purpose of forcing Haiti to honor contracts which appear to have been tainted with fraud and not too scrupulously executed from the company's side, together with the arrangement of a

Private Investments and Diplomacy

favorable settlement on bonds of the railway company which had probably been purchased by American owners at a great discount, has been much criticized. Our purpose here, however, is simply to note the service which governments may perform to foreign investors in cases of this sort. Political considerations connected with naval strategy in the region of the Panama Canal and with corollaries of the Monroe Doctrine, as well as the direct interests of investors, also entered into the combination of motivations which brought United States diplomacy with military force into action.

LAND OWNING IN HAITI¹

A clause which had appeared in the Haitian constitution of 1805 and had survived more than a half-dozen revisions prohibited foreigners from owning land. This was to the Haitians a cherished defense against the possibility of foreign domination, but American corporations and the American government found it irksome. Whether on its own initiative or at the behest of business men, the State Department took the position after the military occupation in 1915 that the prohibition of foreign land ownership prevented the economic development of Haiti and therefore made it impossible to give effect to Article I of the treaty which had just been adopted under pressure from the United States. This article provided that "The government of the United States will, by its good offices, aid the Haitian government in the proper and efficient development of its agricultural, mineral, and commercial resources and in the establishment of the finances of Haiti on a firm and solid basis." In 1917 the President of Haiti, who was almost entirely under the control of American representatives, called a National Assembly to consider revision of the constitution in order to strike out the land-owning clause. But the sentiment of the Assembly was strongly opposed to the elimination of the clause. At this point Brigadier General Cole of the United States Marine Corps, com-

¹Based on Benjamin H. Williams, *Economic Foreign Policy of the United States* (New York, 1929), pp. 34-36.

War and the Private Investor

manding the forces of occupation, wired Washington: "Unless contrary instructions received, if necessary to prevent passage proposed constitution [which still contained the objectionable prohibition of foreign landholding] I intend dissolve National Assembly, through President, if possible; otherwise direct."¹ The Assembly was dissolved, and the next step in the program of eliminating the land restriction was to present a new constitution containing the desired amendment for popular vote. There was no basis in Haitian law for such a procedure, but it was decided to go ahead regardless, and the election was conducted by the Haitian gendarmerie, officered by American marines. The officers waged a campaign for the adoption of the proposed constitution. There was evidence that the election was in no sense free. According to the testimony of an American missionary before the Senatorial committee which later investigated the affair, the Haitians were terrified by the exhibition of armed force at the polling places, and in at least one precinct the negative votes were not untied and only the affirmative lay loose. A light vote carried the new constitution almost unanimously, and since that time a number of American corporations have acquired large holdings in Haiti.²

SOCIAL REVOLUTION AND VESTED INTERESTS IN MEXICO

After thirty-five years under the regime of Porfirio Diaz, whose liberal concession policy and dictatorial maintenance of security for life and property had encouraged the introduction of foreign capital, Mexico experienced a revolution. It was more than a mere shift from the ins to the outs. The revolution begun in 1910 was social and economic in character, a reflection of the fact that while commerce and industry had been thriving under the Diaz policies the condition of the native peon, who was 90 per cent of the population, had remained one of poverty and wretchedness. Associated with

¹"Inquiry into the Occupation of Haiti and Santo Domingo," a record of the hearings before a select committee of the United States Senate (Washington, 1922), I, p. 701.

²*Ibid.*, pp. 191-2, 566, 702.

Private Investments and Diplomacy

this revolt against the Diaz system was a constantly growing spirit of nationalism and antagonism to the foreign interests which Diaz had fostered. "As the growth of foreign investment had been contemporaneous with a decline in the economic welfare of the peasant class, it was easy to see more than an accidental connection between them. . . . To the desire of the native Mexican for land there was added the cry of 'Mexico for the Mexicans.'"¹

Such a social revolution and the nationalistic ambitions that accompanied it were bound to affect the interests of foreign investors in Mexico. The turmoil of the following years, the rebellions and counter-rebellions in which oil companies are supposed to have helped finance rival factions, naturally involved foreign mining, ranching, commercial, banking and other interests in great difficulties and caused them serious losses. There was pressure upon the United States government for forceful intervention to re-establish security and order. "It is a curious thing," President Woodrow Wilson commented in 1914, "that every demand for the establishment of order in Mexico takes into consideration, not order for the benefit of the people of Mexico, the great mass of the population, but order for the benefit of the old-time regime, for the aristocrats, for the vested interests, for the men who are responsible for this very condition of disorder. No one asks for order because order will help the masses of the people to get a portion of their rights and their land; but all demand it so that the great owners of property, the overlords, the hidalgos, the men who have exploited that rich country for their own selfish purposes, shall be able to continue their processes. . . . They want order—the old order; but I say to you that the old order is dead."² President Wilson, in resisting powerful pressure upon him to change his policy of friendliness toward the social objectives of the

¹Frederick Sherwood Dunn, *The Diplomatic Protection of Americans in Mexico* (New York, 1933), pp. 306–8.

²An authorized interview granted to Samuel G. Blythe on April 27, 1914, quoted in *President Wilson's Foreign Policy*, James Brown Scott, ed. (N. Y., 1918), pp. 383–391. Dunn, *op. cit.*, p. 319.

War and the Private Investor

Mexican revolution, felt that most of the pressure originated with those who held property and concessions in Mexico. "I have to pause and remind myself that I am President of the United States and not of a small group of Americans with vested interests in Mexico," his secretary reports him as saying.¹

We can best see the conflict between Mexican aspirations for social reform and the acquired rights of foreigners in the long and sometimes bitter diplomatic controversy which centered about measures taken under Article 27 of the reform constitution, adopted in 1917. The diplomatic battle occupied the governments of the United States and Mexico for over a decade, with other powers looking on or joining in representations on behalf of their citizens' interests in Mexico. Complicated by other questions, and inflamed by systematic propaganda on the part of American oil and land owners which did not stop short of misrepresentation or even forgery of documents to influence public opinion, this issue more than once threatened to disrupt friendly relations between the United States and Mexico. If we pass over countless interesting details, however, the essential conflict can be stated in a few sentences, and it illuminates an important aspect of the services which a private investor abroad may desire from his government.

The Mexican reformers sought to improve the economic condition of the native peasant by giving him land to cultivate, which meant the breaking up of the large estates that monopolized most of the soil; they sought to bring the exploitation of Mexican national resources, especially petroleum, under the control of the state to be supervised for the benefit of the whole people, and to turn larger benefits from these resources to Mexicans instead of to foreign capitalists; and they sought to guard against the danger of foreign diplomatic claims or political intervention by curtailing foreign property ownership in Mexico. This led them to direct special taxes

¹Joseph P. Tumulty, *Woodrow Wilson as I Know Him* (Garden City, 1921), pp. 144-161. Dunn, *op. cit.*, p. 324.

Private Investments and Diplomacy

and condemnation proceedings against large land holdings; to revive the principle of Spanish law (which had not been followed during the Diaz regime when foreign companies acquired most of their oil properties) according to which minerals and oil in the sub-soil were not to be regarded as passing to private owners with title to the surface of the land, but were to remain the property of the state to be rented out for exploitation during a term of years; and to demand of aliens that in order to have the privilege of acquiring property and concessions in Mexico they must agree to be considered Mexicans in respect to such property, and accordingly not to invoke the protection of their government in respect to it under penalty of forfeiture. There were other aspects of the Mexican reform program, such as new labor measures, which were also regarded with hostility by foreign owners, but the oil and land laws provided the most contentious material. The issue was clear: the "right" of the large majority of Mexican people to seek to better their economic and social position at the expense of a class of privileged exploiters whose dominance depended upon property, conflicted with the "right" of these property holders to keep what they had acquired in accordance with standards of law hitherto accepted in Mexico and in other countries. The fact that some of the important vested property rights in Mexico were held by foreigners made the conflict an international one, for these owners appealed to their governments in order to secure the application to their interests in Mexico of the same regard for established property rights to which they had been accustomed at home.¹

¹For details of the diplomatic controversy see F. S. Dunn, *op. cit.*, Chs. X, XI, XII, and official documents there cited; also J. Reuben Clark, Jr., "The Oil Settlement with Mexico," *Foreign Affairs* (New York), Vol. 6, July, 1928, pp. 600-614.

For discussion of the issues involved see Walter Lippman, "Vested Rights and Nationalism in Latin America," *Foreign Affairs*, April, 1927, p. 353; E. M. Borchard, "How Far Must We Protect Our Citizens Abroad?" *New Republic*, April 13, 1927, p. 214; Charles Warren, "What Is Confiscation?" *Atlantic Monthly*, August, 1927, p. 246; John P. Bullington, "Problems of International Law in the Mexican Constitution of 1917," *Am. Journ. of International Law*, October, 1927, p. 685. (Cited by Williams, *op. cit.*, p. 163.)

CHAPTER 6

How Diplomacy Serves Investments

THE services of governments to the interests of their citizen-investors abroad are of two main types: 1) those which assist in the placement of capital, as by finding opportunities for profitable investment and removing obstacles to the exploitation of such opportunities when found; and 2) those which assist in the protection of capital once it has been invested.

PLACEMENT OF CAPITAL

Many modern governments facilitate the establishment of contacts which lead their investors to profitable placements abroad. Organized services gather information about trade and investment opportunities and the relevant economic and political conditions in other parts of the world and make them available to business men at home. Each year the stream of information which flows in from consular and commercial agents of the important industrial countries issues in hundreds of leaflets and bulky volumes of reports. Much of this material is highly specialized and serves only a particular export or import industry; other portions are routine statistical reports; probably only a small proportion of it is serviceable to those who place capital abroad as distinguished from those who conduct trade. Nevertheless, these promotional agencies of government do increase considerably the amount

Private Investments and Diplomacy

of information available to prospective enterprisers and investors, not only through publications, but through direct answers to inquiries. Business men contemplating investment in an unfamiliar country characteristically turn to their nation's diplomatic or commercial agents, also, for introductions to public officials with whom they may have to deal and for general information.

The Bureau of Foreign and Domestic Commerce of the United States Department of Commerce, which expanded tremendously after the war under the guidance of Secretary of Commerce Herbert Hoover, is probably the outstanding example of organized governmental facilitation of foreign economic contacts. It sent commercial agents all over the world to supplement, and sometimes to duplicate, the work of the State Department's consular agents. Some of its hundreds of publications: "Abyssinia, Present Commercial Status of Country, with Special Reference to Possibilities for American Trade," "Market Methods and Trade Usages in London," "Peruvian Markets for American Hardware," "Conduct of Business with China," "Foreign Capital Investments in Russian Industries and Commerce," "American Direct Investments in Foreign Countries," "Financial Developments in Latin America During 1929," "Finland: Economic Review," "French Experience with Defaulted Foreign Bonds," "Cattle Raising in Argentina," "Italian Chemical Industry."

The foreign policy of governments has often been exerted to establish certain indispensable bases of capitalistic enterprise in countries lacking them, thus performing a service to investors. These obviously include tolerable order and security, in particular, security to property rights, and the inauguration of certain capitalistic legal forms without which business can hardly be carried on. The habits of thinking and doing expressed in the laws of Morocco, Persia, and China, for instance, when foreigners began to acquire important interests, there were not the ways of Europe and America, nor were they adapted to the complicated transactions of Europeanized industry and trade. The foreigners demanded the type of security to property and protection of contract rights to which they were accustomed at home, and they

War and the Private Investor

looked to their governments for aid. The outside critic maintains that the British merchant is able to take care of himself in Turkey and Persia, wrote an advocate of vigorous government support to private enterprise abroad, "*just as if a private merchant were able to press reforms on the Turkish or Persian Government.*"¹

Indeed, the export of capital to countries previously untouched by capitalistic industrialism necessitates the simultaneous "export" of specialized governmental forms and institutions, such as commercial law, and specialized economic institutions, such as the wage system. Out of this fact, as we shall see in Part II, a deep and inevitable conflict emerges between capital-importing and capital-exporting countries when their social institutions are radically different. Governments facilitate this export of capitalistic institutions, so necessary to the interests of investors, when they encourage chartered colonial companies to introduce forts, roads, taxes, and European law into darkest Africa. They do the same when by protectorate, as in Morocco, or by financial protectorate and occasional military intervention, as in Haiti and Nicaragua, or by a mixture of friendly advice, threats, diplomatic pressure, and extraterritoriality, as in Persia and China, they establish "law and order" (as understood in the capitalistic West) and encourage reform. Examples follow.

Persian correspondence in the *Kölnische Zeitung* of February 2, 1929, advised German business men not to found manufacturing establishments in Persia at that time, even though Germans and Americans were building a railway from the Caspian to the Gulf. Special difficulties confronted enterprises in the fields of banking, transportation, mining, or agriculture, because all these could be carried on only under concession, and as there was no good registration system for concessions overlapping rights were always leading to conflicts with other concessionaires. Law in Persia was backward. There was no written code, only the Koran. Judgments were a rarity; judges sought to smooth cases over by compromise.

The whole Chinese conception of law has been fundamentally

¹H. J. Whigham, *The Persian Problem* (London, 1903), p. 316. Italics mine.

Private Investments and Diplomacy

different from that of the modern West, for "the Chinese cannot conceive of law as impersonal." The Chinese judge thinks of himself as an administrator or arbitrator. To sue for enforcement of a contract is an insult; respectable people do not go to law. "The practice of test cases for the definition of principle and the setting of precedent was, therefore, until recently, absolutely unheard of. . . . Law as the epitome of community experience, law positive and superior, regulatory in its character, law the tool for setting precedent or standard, such law was formerly unknown, and is now seldom understood; certainly, it is not generally accepted." Chinese governments have been laboring for many years in an effort to build up codes of law suitable for the modern China arising out of contact with the West. These must be an intricate composite of old Chinese codes and customs and European legal systems. The difficulties of this task are immense. The new codes, for example, must provide for new ideals of individual liberty in a social sense and individual property rights, both of which are contrary to all Chinese tradition. These difficulties illustrate why foreign business communities in China have perforce brought their own legal systems with them, through the institution of extraterritoriality and foreign leased areas maintained by their governments, not to speak of the demand for these devices arising out of distrust of Chinese tax systems or unwillingness to trust Chinese government to afford personal security to foreigners. It is a fact that even native Chinese business enterprises, such as banking and import-export houses, have not developed to any great extent except in the special foreign areas where these indispensables of capitalistic organization are available.¹

The foreign powers interested in Morocco provided at the Algeiras Conference of 1906 that the Sultan's government should adopt and promulgate a modern mining law drawn on the model of European laws then in existence. The purpose was to bring some order out of the confusion of conflicting mineral concessions already granted and to make such rights more certain in the future. The political jealousies of the European powers and the economic rivalries of some of their citizens prevented agreement on a Moroccan mining law for many years, however, and by that time the French protectorate was about to be established.²

Likewise in China the powers desired modern mining laws under which their citizens could invest their capital with some security.

¹Edith E. Ware, *Business and Politics in the Far East* (New Haven, 1932), Ch. II and p. 115.

²See Chapter 7, the Mannesmann affair.

War and the Private Investor

These desires were embodied in treaties like that between the United States and China in 1903:

“ . . . China will with all expedition and earnestness go into the whole question of mining rules; and selecting from the rules of the United States and other countries regulations which seem applicable to the conditions of China, will recast its present mining rules in such a way as, while promoting the interest of Chinese subjects, and not injuring in any way the sovereign rights of China, will offer no impediment to the attraction of foreign capital, nor place foreign capitalists at a greater disadvantage than they would be under generally accepted foreign regulations. . . .”¹

In addition to (1) facilitating contacts and (2) establishing some of the conditions without which capitalistic enterprise cannot be carried on, the governments of capital-exporting countries endeavor (3) to secure particular advantages for the benefit of their investors abroad. These endeavors include assistance to private business men (a) in getting concessions, (b) in arranging subsidies or guarantees or other special favors from foreign governments, (c) in establishing monopolies, (d) in breaking the monopolies of rivals or preventing them, and (e) in removing restrictions on the investment of capital or the transaction of business.

Where business is carried on under general commercial laws, as in the advanced industrial countries of Europe, foreign capital has commonly been invested freely in most types of enterprise with no more than the routine sanction of the state to articles of incorporation, leases, and similar legal instruments. The situation is much different, however, in the less industrialized countries of the world, where institutions for the routine regulation of capitalistic enterprise are undeveloped and where the government may also be weak and unstable. When foreign enterprise undertakes to build railway lines, sink mine shafts, establish banks, and bore for oil in these countries it has to do so under special grants of

¹William M. Malloy (compiler), *Treaties . . . between the United States of America and Other Powers* (Washington, 1910), I, 265-6.

Private Investments and Diplomacy

privilege, and political support may be helpful or even necessary in obtaining such concessions.

The aggressiveness with which governments have supported the quests of their contractors and concessionaires for opportunities abroad has varied greatly from time to time and place to place, according to the particular doctrines of the party in power, the political characteristics of the country where the concession was sought, and the political issues tied up with any particular concession. While Lord Lyons was ambassador of Great Britain at Constantinople he rejected an application to support a concession which Mr. Brassey was seeking for the construction of a railway from Constantinople to Adrianople, explaining that he was constantly being asked to support all sorts of concessions for railways and similar undertakings and that his practice was to reply that it was not his business to meddle in such matters unless instructed to do so by the Foreign Office. "The fact is that there is often much dirty work connected with the management of such matters at the Porte," he said, "and I wish to be clear of them."¹ This was in the late 1860's, however, and the attitude of diplomacy toward business has undergone changes. In 1898 Lord Salisbury authorized the British minister in China to offer Great Britain's military assistance should China be attacked by another power because of granting concessions to British firms.² Sir Edward Grey stated the views which actuated his policy in the Foreign Office as follows in 1914:

"I regard it as our duty, wherever bona fide British capital is forthcoming in any part of the world, and is applying for concessions to which there are no valid political objections, that we should give it the utmost support we can, and endeavor to convince the foreign Government concerned that it is to its interest as well as to our own to give the concessions for railways, and so

¹Lord Newton, *Lord Lyons* (London, 1913), I, 176.

²R. Stanley McCordock, *British Far Eastern Policy, 1894-1900* (New York, 1931), p. 191; *China No. 1* (1899), No. 243, p. 166.

War and the Private Investor

forth, to British firms, who carry them out at reasonable prices and in the best possible way.”¹

Still he was criticized by groups who found British governmental aid more restrained than that of other countries.

In general, the exertions of the British government on behalf of concession-seekers before the war “adapted themselves to the strength and character of other governments, and to the ruling political relationships which existed in different areas. Where strong and orderly governments existed, which might resent any display of pressure—as in the larger Latin-American countries, Japan, Spain, and the Scandinavian countries—government action rarely went beyond friendly recommendation, promotion of British interest where it was apparent that a common interest would be served. In the smaller states of Latin America, where governments were often in the hands of self-enriching groups, and the play of wits and force rather than normal competitive considerations shaped decisions, government representation became more pointed. But here the existence of the Monroe Doctrine and American policies were restraining influences. . . . It was in the undeveloped, disorganized Chinese Empire, in the lands on the road to India, Turkey, Persia, and Egypt, and in the continent of Africa that the government stepped to the fore, strove with, by, and for British private groups.” Likewise in the case of France and Germany, “The manner and extent of the government exertions in behalf of concession opportunity differed . . . according to the character and strength of the government and people within whose domain the concession was sought.”²

In 1896 United States Minister Denby wanted to know how far he should go in support of American concession-seekers in China, and Secretary Olney replied that, while he should be careful not to assume responsibility in the name

¹Foreign Office debate in the House of Commons, July 10, 1914, Parliamentary Debates, House of Commons, 5th ser., LXIV, 1446.

²Herbert Feis, *Europe the World's Banker: 1870-1914* (New Haven, 1930), pp. 97-8, 177.

Private Investments and Diplomacy

of the government for any American enterprise seeking to establish itself there,

“the Department thinks that you should use your personal and official influence and lend all proper countenance to secure to reputable representatives of such concerns the same facilities for submitting proposals, tendering bids, or obtaining contracts as are enjoyed by any other foreign commercial enterprise in the country.”

The Minister was left great latitude in the application of this policy:

“It is not practicable to strictly define your duties in this connection, nor is it desirable that any instructions which may have been given should be too literally followed. Your own judgment and experience, the standing of the firms who seek your assistance and of their agents, must all be given due weight and your action shaped accordingly. Broadly speaking, you should employ all proper methods for the extension of American commercial interests in China, while refraining from advocating the projects of any one firm to the exclusion of others.”¹

This differed considerably from the instructions which Secretary Bayard had given the same Minister in 1887, for then he had been told to abstain “from the furtherance of individual plans and contracts connected with foreign governments, until they have been submitted to this Department and received its approval.”² The aggressive diplomatic support of American enterprisers abroad continued to develop until it reached the authority of a positive official creed in the conception of dollar diplomacy under President Taft and Secretary Knox.³ “While our foreign policy should not be

¹*Foreign Relations of the United States*, 1897, No. 1376, Secretary Richard Olney to Denby, December 19, 1896.

²J. B. Moore, *A Digest of International Law* (Washington, 1906), IV, 567.

³Charles A. Beard, *The Idea of National Interest* (New York, 1934), p. 464.

War and the Private Investor

turned a hair's breadth from the straight path of justice," said President Taft, "it may well be made to include active intervention to secure for our merchandise and our capitalists opportunities for profitable investment which shall inure to the benefit of both countries concerned."¹ There was a partial setback to this attitude during the Wilson administration, but it returned to active, open application in the promotional activities of the Republican administrations after the war.

It is illuminating to observe in a particular case of concession-seeking what United States Minister Denby considered to fall within the "all proper methods" he was authorized to employ for the extension of his countrymen's interests in China. The quotations are from his own report to the Department of State on an interview which he had with Chinese government officials regarding an application by the American China Development Company:²

"I stated that . . . while I was not authorized by my Government to demand of the Chinese government contracts to build railroads or to do any other work, yet it was, as I conceived, my duty to see that the rights of my compatriots should be protected. . . ; that my Government had not demanded any compensation, direct or indirect, for its services to China, though . . . to the Department of State belonged the honor of having made peace for China [presumably after the Sino-Japanese War, 1894-5]; that the services rendered by other powers were made possible only by our proposal of and conducting to a successful termination the adoption of peace negotiations; that other powers had demanded and received rewards for their action; that to one power a large strip of territory on the Mekong was ceded; that to another the right to build railroads in Manchuria was granted; that with another a contract was made to buy ships; that with all three powers advantageous loans were made . . ."

After this appeal on the ground of compensation for services rendered, the Minister turned to political arguments, including what might be interpreted by the Chinese as covert threats:

¹F. A. Ogg, *National Progress, 1907-1917* (New York, 1918), p. 263.

²*Foreign Relations of the United States, 1897*, pp. 56-8, January 10, 1897. This dispatch was written before receipt of the general instructions quoted above, but after their receipt Denby wrote that he had acted in accordance with those instructions as he understood them. (*Ibid.*, p. 59.)

Private Investments and Diplomacy

“ . . . that from a political point of view it was conceded on all hands that the work of developing China should be conceded to Americans, because the United States had and could have no ulterior designs on Asiatic territory; that to refuse now to grant contracts to Americans might develop a bad feeling among our people at home and make them less friendly than they always had been to China; . . . that at the instance of Sheng Taotai and other distinguished persons (meaning Li Hung Chang) well known experts and financiers had come to Shanghai; that they were there in consultation with Sheng, and they had represented to me that Sheng was not disposed to treat them fairly; that it would be a breach of good faith to fail to make a contract with these representatives of American interests, and I had to demand that they wire to Sheng to contract with the American company for the building of the Hankow-Pekin line. . . .”¹

It is not only over against the governments of capital-importing countries that diplomacy has rendered important service to concession-seekers. Sometimes the opposition of other powers must be set aside.

The first Bagdad Railway concession had to be seen through the Sultan's court at Constantinople by German diplomats against the obstructive tactics of all the other powers. Without vigorous support from their Embassy the German private promoters would have had no chance at all. As it was, the going was hard enough, with the English threatening a naval demonstration, the Russians holding an indemnity claim over the Sultan's head, the French showing their displeasure through fiery articles in the press, and the Anglo-French Ottoman Bank agitating among the Turkish populace to make it impossible for the Sultan to accept the German project.² One of the diplomatic moves by which the German gov-

¹There was also praise for American railroad builders in general and recommendation of these financiers in particular: “that it was conceded by all the officials who had been consulted on railroad questions that Americans could better than any other people build great railroads; . . . that a few weeks ago it was understood that the contract for building the Hankow-Pekin line was actually let to Americans—a preliminary contract had been made with the American China Development Company; that this company was composed of men who were worth several hundred millions of taels; that it was beyond all peradventure able to execute any contract it might make. . . .” The State Department took exception to this part of Denby's argument, pointing out that the Development Company was a limited liability concern with a very small capital and that the financial standing of the promoters had little to do with the matter. (*Ibid.*, pp. 59-60.)

²*Die Grosse Politik*, No. 3970, January 9, 1893.

War and the Private Investor

ernment sought to remove British opposition was withdrawal of its already announced consent to an increase desired by Great Britain in the Anglo-Egyptian army.¹

Diplomacy has not only helped its nationals to obtain concessions, but to obtain them on advantageous terms. Thus, the Bagdad Railway concessions guaranteed the company a substantial sum from the Turkish government for each kilometer of track laid down, and similar guarantees have been common in the history of railway enterprise abroad. In China most of the railways have been financed by direct loans to the Chinese government, the foreign companies advancing the capital and contracting for the construction. A tendency has been noted for the powers to apply the doctrine of most-favored-nation treatment to these concessions in China; insisting, that is, that their citizens shall receive contracts in all respects as favorable in terms as those accorded in the past or future to the citizens of any other power.² Governments have also by their diplomatic policies helped to build up monopolies or partial monopolies for investment undertakings of their citizens in particular regions. Thus, the spheres of interest staked out by France in southern China, by Great Britain in the Yangtze valley, by Germany in Shantung, and by Japan and Russia in Manchuria gave a preferential position to their nationals in applying for concessions. A tendency of United States diplomacy to oppose European concessions of certain types in the Caribbean region, illustrated when American official influence was exerted to keep the Cowdray oil interests from getting privileges in Mexico, Costa Rica, and Colombia,³ and when the Dziuk railway concession in Panama, backed by British and German capital, was cancelled to please the United States,⁴

¹*Op. cit.*, No. 3965, January 6, 1893, and footnote.

²Cf. Quincy Wright, *American Journal of International Law*, 21 (1927), 761; W. W. Willoughby, *Foreign Rights and Interests in China* (Baltimore, 1927), pp. 44-5.

³See Chapter 13.

⁴B. H. Williams, *Economic Foreign Policy of the United States* (New York, 1929), p. 56; *Foreign Relations of the United States*, 1912, p. 1198. "At another time, when the government of Panama was contemplating the construction of a railway,

Private Investments and Diplomacy

has similarly improved the bargaining position of American applicants by limiting European competition. Though these policies may be initiated for political and strategic reasons, their effect is nevertheless to monopolize investment opportunities for citizens of one nationality, and sometimes for one particular concern. A few concrete instances follow.

When a Belgian group (undoubtedly representing French and Russian interests) obtained a concession in 1898 for the construction of a railway from Peking to Hankow, thus infringing on the British Yangtze sphere, Lord Salisbury saw in it "a political movement against the British interests in the region of the Yangtze," and the British ambassador informed the Chinese that "Her Majesty's Government cannot possibly continue to coöperate in a friendly manner in matters of interest to China, if, while preferential advantages are conceded to Russia in Manchuria and to Germany in Shantung these or other foreign Powers should also be offered special openings or privileges in the region of the Yangtze," Britain demanded as compensation that several other railway concessions be made available to British nationals immediately. "Unless they agree at once," the Ambassador's instructions read, "we shall regard their breach of faith concerning the Peking-Hankow Railway as an act of deliberate hostility against this country and shall act accordingly. After consultation with the Admiral, you may give them the number of days or hours you think proper within which to send their reply."¹

The German treaty of 1898 leasing Kiaochow provided that in case China should need foreign assistance in the form of capital, personnel, or material in Shantung, application should first be made to German merchants and industrialists. When the German mining company surrendered its general privileges in Shantung in 1911 for certain specified rights it was agreed that should the Chinese government later wish foreign capital to carry on mining operations in the surrendered zones the German banks should be resorted to.²

In 1901-2 Russia attempted to obtain preferential or exclusive mining and railway privileges in Manchuria, and in 1910 objected

Colonel Goethals and Minister Price were requested by the Department of State to make recommendations upon the plan. The two agreed that the Department of State should require the bonds for the project to be floated in the United States." See *Foreign Relations of the United States*, 1914, p. 1030.

¹*China*, No. 1, 1899, Nos. 175, 286; Willoughby, *op. cit.*, I, 144; T. W. Overlach, *Foreign Financial Control in China* (New York, 1919), pp. 31-33.

²Willoughby, *op. cit.*, I, 83-5.

War and the Private Investor

to the building of the Chinchow-Aigun Railway, for which American interests had obtained a concession, on the ground of a secret agreement obtained from China in 1899 that China would not build railways to the north of Peking with foreign capital other than Russian. The Japanese likewise claimed that they must be consulted about railway projects in Manchuria, and by a secret protocol attached to the Sino-Japanese Treaty of 1905 prevented a British firm from extending the North China Railway.¹

Sometimes an exclusive sphere of economic influence for one power means in practice monopoly rights and profits for a particular firm, not merely for the nationals of that power collectively. Such was the case, for example, with the Hongkong and Shanghai Bank through its affiliated British and Chinese Corporation, which became the official railway constructor for the British government in China. "The monopoly exercised by the syndicate within the British sphere and under Government support was a monopoly of rights to contract railway construction at the exclusion of non-British as well as other British interests."² The bank originally worked actively in favor of the policy of pegging out an exclusive sphere for Great Britain in the Yangtze region, thinking thereby to make more money through lessened competition. Its leaders later came to regard this mixture of politics and finance as having proved itself a bad practice—doubly bad, for not only did it lead to dangerous international conflict and political corruption, but it resulted in wasteful finance and was not even profitable.³

Governments have assisted their investors to gain admission to regions and opportunities where they were being threatened with exclusion by the monopolistic ambitions of rival powers, and this type of assistance has been given by some of the same governments that have shown a desire to establish similar monopolistic privileges in favor of their own

¹Willoughby, *op. cit.*, I, 85-88.

²Overlach, *op. cit.*, p. 49.

³Sir Charles Addis, Manager in London of the Hongkong and Shanghai Banking Corporation, "Policy and Finance in China," *Far Eastern Review*, March, 1920, pp. 162 ff., and a personal interview with Sir Charles Addis.

Private Investments and Diplomacy

investors elsewhere. The slogan of the open door has frequently been used as the diplomatic spearhead for governmental efforts to squeeze its nationals into concession privileges from which forehanded rivals seemed likely to bar them. Examples follow.

The German government's opposition to the extension of French influence over Morocco in the decade before 1911 was expressed in a policy which proclaimed the purely economic nature of Germany's interest, emphasizing its desire to maintain the open door so that German firms might be free to trade and invest. The principle of the open door was mainly a convenient slogan under which to do diplomatic battle for greater consideration to German political and economic wishes in Morocco. It was readily abandoned after the accord of 1909 with France, which contemplated the encouragement of joint undertakings by their nationals to the partial exclusion of citizens of third powers from investment opportunities.¹

The open-door policy of the United States in China was at first applied only to trade; no specific demand was made for the open door in regard to permanent investments, and the preferential railway and mining privileges were in no way disturbed.² Later, however, the United States protested against Russian attempts to monopolize the economic development of Manchuria, mentioning mines and railways specifically (1902); the Knox neutralization plan for Manchurian railways was advanced as the most effective means of maintaining the principle of the open door (1909); and in the plan for the new Consortium to finance Chinese developments after the war the United States laid stress on the desirability of preventing spheres of influence in the future in order to avoid international jealousies, though it was proposed to respect the vested interests of existing railways.³ In supporting the Federal Telegraph Company against the claims of certain Japanese, British, and Danish companies to monopolistic communications rights in China, the United States government has maintained that such monopoly is not valid under treaties recognizing the open-door principle.⁴

¹See André Tardieu, *Le Mystère d'Agadir* (Paris, 1912), pp. 1-2, 29-31, 71-2.

²Tyler Dennett, *Americans in Eastern Asia* (New York, 1922), pp. 644-8.

³M. J. Bau, *The Foreign Relations of China* (New York, 1921), pp. 162 ff. and M. J. Bau, *The Open Door Doctrine in Relation to China* (New York, 1923), Ch. VIII.

⁴Willoughby, *op. cit.*, Ch. 38.

War and the Private Investor

During the years from 1920 to 1923 the Department of State provided some of the most striking examples of assistance in capital placement abroad through its support of American oil companies.¹ The situation was peculiar in that the recent experience of the war, in which the Allied armies had "floated to victory on a sea of oil," had made this fluid a prime factor in military and naval power, while estimates of existing supplies and consumption had raised the specter that the oil resources of the United States might be used up within a few years. All over the world statesmen and military strategists, their friends in private business, and publicists who formed opinion were experiencing a nervousness almost akin to hysteria regarding future sources of the "black gold." In these circumstances Washington showed official indignation over reports of restrictions and discriminations which barred American companies from some of the prized fields abroad. Both the State Department and the Federal Trade Commission made investigations and published their findings.² The opinion expressed by a French writer was not unrepresentative of a view which prevailed at this time among public officials, certain congressmen, officers of oil companies, and some journalists:

"If the United States does not succeed in acquiring new oil fields in the rest of the world, the position will become so serious that they will only be able to avoid war at the price of economic vassalage."³

During and after the war British military and political strategy and British capital had succeeded in gaining control over important future sources of supply to an extent which led Americans to allege that they were being shut out. The Department of State began diplomatic representations to Great Britain. In the correspondence which ensued the British government took the position that Britain was not trying to preëempt the world's oil supply, that there were no restrictions against Americans except in certain British territories where the production was not great, and that

¹This brief summary is based on B. H. Williams, *The Foreign Economic Policy of the United States* (New York, 1929), Ch. IV, to which the reader is referred for citations of sources.

²"Restrictions on American Petroleum Prospectors in Certain Foreign Countries," Sen. Doc. 11, 67th Congress, 1st Session; "Oil Prospecting in Foreign Countries," Sen. Doc. 39, 67th Congress, 1st Session; "Oil Concessions in Foreign Countries," Sen. Doc. 97, 68th Congress, 1st Session; Federal Trade Commission, *Report on Foreign Ownership in the Petroleum Industry*, Washington, 1923.

³Pierre l'Espagnol de la Tramerye, *The World Struggle for Oil* (New York, 1924), p. 40, quoted by B. H. Williams, *op. cit.*, p. 62.

Private Investments and Diplomacy

the great bulk of current petroleum output was that of the United States itself. In reply, Secretary of State Colby emphasized potential resources instead of current production from supplies which might one day be exhausted, and the greatest share of these seemed to be in the hands of the British.

The State Department directed its attack particularly against certain arrangements affecting the rich Mesopotamian fields. In 1914, just before the war, the Turkish government had promised to grant a concession for these fields to the Turkish Petroleum Company, an international group owned by the Anglo-Persian Oil Company (50 per cent), the Deutsche Bank (25 per cent), and the Royal Dutch Shell (25 per cent). The British invaded Mesopotamia as far as Bagdad in 1917 and advanced to Mosul after the armistice. Great Britain was allotted a mandate over the territory at the San Remo Conference in 1920, and at this same conference a secret agreement was also concluded between Britain and France with regard to oil. This provided that in case a private company should be used to develop the Mesopotamian fields the British government should place a 25 per cent share in such company at the disposal of the French. The company, however, was to be under permanent British control. In other words, the French received the right to purchase the share of the Deutsche Bank in the Turkish Petroleum Company, which the British government had expropriated during the war. In return, France was to permit the construction of pipe lines across Syria. "On May 12 [1920], in ignorance of the oil agreement at San Remo but aware of the mandate allotment, the American government presented through Ambassador Davis at London a note expressing the hope that no exclusive concessions would be granted in the mandated territory and that the principle of treatment in law and fact equal to that accorded to the nationals or subjects of the Mandatory power should be guaranteed to the nationals or subjects of all nations. This note was prompted by the belief that the British authorities were quietly preparing for a monopolistic development of the oil resources in Mesopotamia. When in July, 1920, the news of the San Remo Agreement was published, the United States was prompt to file a protest with the British Foreign Office and the discussion continued for several years." The United States claimed that the mandate principle demanded equality of economic treatment to the nationals of all countries, no monopolistic concessions, and reasonable publicity in the matter of concessions; that the preferential treatment shown to France was not in consonance with the principle of equality of treatment; and that the promise given the Turkish Petroleum Company in 1914

War and the Private Investor

could not be treated as a definite and binding agreement. After several years of negotiations, in which the governments discussed principles of mandatory trusteeship and the open door while the oil companies dickered, it was announced that a group of American companies (Standard Oil of New Jersey, Standard Oil of New York, Gulf Refining, Atlantic Refining, Pan-American Petroleum and Transport) was to have the privilege of purchasing 25 per cent of the shares of the Turkish Petroleum Company from those held by the Anglo-Persian. "This arrangement was hailed by the Standard Oil officials as the first instance in history of the development of oil fields according to a 'practical open-door policy.'"¹

American diplomacy also sought to secure a place for American companies in the exploitation of the Djambi oil fields in the Dutch East Indies—particularly coveted by Standard Oil because of the proximity to its distribution systems in the Far East, and also interesting to the Sinclair Oil Company. When the matter of a contract was under consideration by Holland the United States made diplomatic representations urging that Americans should be permitted a share in the development. This plea was disregarded, and the Dutch government turned over the richest field in the Dutch East Indies to a subsidiary of the Royal Dutch, representing Dutch and British capital. "The United States government took the view that the award to the Royal Dutch subsidiary amounted to closing the door in the face of American capital and that the act was particularly unfair because the United States had made no discrimination against Dutch or British capital in the development of the oil resources of this country. The Roxana Petroleum Company and the Shell Company of California are among some of the important Royal Dutch-Shell companies established in American territory, and through its various subsidiaries the combination holds large leases in the public domain and in Indian lands. The United States informed the Dutch government that it was very greatly concerned over the granting of a monopoly to a company in which foreign capital other than American [namely, British] is so largely represented." Threats were made to retaliate, and retaliation was actually begun. "On September 12, 1922, Albert Fall, Secretary of the Interior, refused the request of the Shell

¹Still further negotiations were required until the shares in the Turkish Petroleum Company were finally rearranged as follows: Anglo-Persian, 31.25 per cent; Royal Dutch-Shell, 21.25 per cent; French interests, 21.25 per cent; American interests, 21.25 per cent; an Armenian early interested in the company, 5 per cent.

Williams, *op. cit.*, pp. 62-69; Ludwell Denny, *We Fight for Oil* (New York, 1928), pp. 151, 156-7.

Private Investments and Diplomacy

Company of California for a lease on public lands in Utah and gave them sixty days in which to file evidence that the government of The Netherlands would permit similar concessions to citizens of the United States. The company withdrew its application. In March, 1923, the Secretary refused to permit the assignment of Indian leases to the Roxana Petroleum Corporation. This decision was later reversed by the successor of Mr. Fall. . . . After several years of negotiations the State Department announced that the two governments had settled their differences over oil exploitation by a friendly understanding. The Netherland government assured the United States that its laws and policies were such as would permit participation by Americans in the development of oil lands in the Dutch East Indies. The United States in turn agreed to consider The Netherlands as a reciprocating country under the terms of the 1920 mineral leasing act, which construction restores to Dutch nationals the privilege of leasing public mineral lands."¹

Diplomatic pressure has also been used by various governments to remove restrictions imposed by prospective capital-importing countries upon the investment of capital, or upon ownership of land or rights to do business which are bound up with investment. Recall the instance of the Haitian land laws in Chapter 5. The good offices of the State Department were used from 1895 to 1899 in favor of certain American life insurance companies that had been prohibited from doing business in Prussia through allegedly unreasonable requirements imposed upon them, and in the course of the negotiations the State of New York retaliated by excluding Prussian companies from its jurisdiction.² United States diplomacy also endeavored to better the legal position of American life insurance companies in France,³ and added its representations to those of other powers against obstructions experienced by foreign insurance companies in Turkey.⁴

¹Williams, *op. cit.*, pp. 69-70; State Department Press Release, September 17, 1928.

²Insurance commissioners of other states joined New York in protests to Berlin, and they may have excluded Prussian companies also. See *Foreign Relations of the United States*, 1895, pp. 428 ff; 1896, pp. 192 ff; 1897, pp. 204 ff; 1899, pp. 284 ff.

³*Foreign Relations*, 1880, Nos. 227, 239, 247.

⁴*Ibid.*, 1902, No. 143.

War and the Private Investor

PROTECTION OF INVESTMENTS

The protection which established investments abroad receive from the diplomacy of the investor's home government may be conveniently divided into protection 1) against violence and disorder at the scene of the investment, 2) against revocation of privileges or breach of contract, 3) against legislative or constitutional measures adverse to foreign investment interests.

Unstable government and civil turmoil often cause serious losses to investors, who frequently turn to their home governments in hope of relief. The foreign policy of the investor's government in such cases can be directed to the immediate protection of life and property, to the reimbursement of its citizens through claims for indemnity on account of damage suffered, and to long-run prevention of disturbances. These methods of protection against violence and disorder are so familiar and appear so often in the cases narrated throughout this book that only a few examples of the thousands that might be cited are necessary.

In 1885 a revolution was in full swing in Colombia, and the State of Panama was soon involved. "On January 18 General Ramón Santo Domingo Vila, recently installed president of this state, notified the commander of a war vessel of the United States at Colón that he was unable to protect the property of the Panama Railroad Company at that place. A small party of Marines was at once landed to protect the buildings, safes and vaults of the company. It was soon revealed, however, that the property was in no immediate danger and the President had made the request with a view to its moral effect upon certain lawless elements on the Isthmus. Early the next morning the Marines returned to the vessel, which remained in striking distance of the town for some time." Two months later the situation again became acute. Insurrection broke out and Colombian troops went from Colón to suppress it. "In their absence General Pedro Prestán, a mulatto originally from Haiti, rose in revolt. Two weeks later Colombian troops returned. Prestán's situation soon became desperate, and he set fire to Colón while making his escape. A detachment of American Marines apparently did nothing except fight the fire. The conflagration demolished most of the town, destroying a large amount of property

Private Investments and Diplomacy

belonging to citizens of the United States. It was not until the last of April that the revolt in the State of Panama was subdued, and United States Marines did not withdraw from the Isthmus until May. Their efforts were confined largely to keeping the railroad open to traffic and protecting American property. If it had not been for their presence Panama City and some of the small towns along the line of the railway might have suffered the fate of Colón.”¹

It is interesting to observe what some of the United States citizens whose property the Marines were unable to save from the fire expected or demanded from their government in the way of protection. They presented claims against Colombia to the amount of more than \$3,000,000, and some of them even thought that reimbursement might be forthcoming from the United States government itself. But let them speak for themselves:

“S. L. Isaacs thought first of selling his vacant lots to the United States for an army camping ground or a coaling station or a fortification. With reference to the losses of his firm he remarked: ‘We hope, and have reason to expect, that the United States Government will compel the Colombian Government to restore our property and pay for our stocks of merchandise which were destroyed.’

“Tracy Robinson said: ‘We are not likely to recover insurance, and our only hope . . . is in the interference of our Government in securing an indemnity from the Government of Colombia. . . . Permit me to add that I am delighted to see the activity of the present moment in regard to Isthmian affairs, and hope to see before the present crisis is ended the Isthmus under American protection.’”

The Boston Ice Company inquired “whether we have any cause for a claim on the United States Government or whether we can ask our Government to present a claim in our behalf on the United States of Colombia,” and counsel for the Panama Railroad Company served notice on the Department of State that the company would present a formal claim against Colombia, which it desired the United States to support, “and the railroad company desires also to reserve all its right to claim restitution for all the aforesaid losses and damages from the Government of the United States for the failure to fulfill its treaty obligations to keep the transit across the Isthmus open for commercial intercourse, in accordance with the terms of the treaty relating thereto, and it now gives this notice of such claim so that the Government of the United States may . . . , by action on its part on the Isthmus, and by notice to

¹J. Fred Rippy, *The Capitalists and Colombia* (New York, 1931), pp. 78-9.

War and the Private Investor

the United States of Colombia, be enabled to save itself from the liability aforesaid.”¹

Sometimes in weak countries the protection afforded to foreign subjects by their governments puts them and their property in a position so much more secure than that of the native that association with one entitled to such protection is a privilege to be coveted—and purchased for a consideration. Thus arises what a French writer on Morocco called “the industry of extraterritoriality,” or what in modern vernacular might be designated as the protection racket. The presentation of claims for damage also becomes a racket in countries subject to more or less chronic disorder, especially where the political ambitions of an outside power produce an aggressive diplomacy ready to seize all pretexts and hence to push all claims.

In Morocco before France assumed its protectorate the extraterritorial rights of foreigners and the scandalous partiality of consular courts produced a class of speculators who fattened on the readiness of European governments to accord aggressive protection. Europeans could hold land only by indirect means, through a native protégé. These protégés were registered at the legation and automatically came under the jurisdiction of the extraterritorial courts. The privilege of being a protégé was much sought after by well-to-do natives, for it sheltered them from the vexations and extortions of the Sultan or his retainers; hence, it acquired a pecuniary value, on which some Europeans based a regular traffic. For some in Morocco it constituted almost the sole means of support.² Europeans and natives would also “associate” for the raising of cattle or sheep in order to evade the restrictions of Moroccan law and in order to mulct the Moroccan government through claims for damages in case anything went wrong. If there were a theft or a raid of brigands the native could release himself from responsibility by proving, on the testimony of a dozen witnesses, that the occurrence was not due to his lack of surveillance. Then it would be the government of Morocco which would be obligated toward the European associate, on account of its failure to maintain order

¹*Ibid.*, pp. 79-81.

²Robert de Caix, “De l’abus de la protection et de la naturalization au Maroc.” *Journal de droit international privé*, 40 (1913), pp. 79 ff. and personal interview with M. de Caix, who has long been prominent in French colonial affairs.

Private Investments and Diplomacy

in the country. A claim for damages would be paid at the time of the next loan, with a generosity which rarely made the claimant regret the misfortune of which he had been the victim.¹ The situation was notorious and did not escape the Sultan. Noticing a building under construction during his visit to a certain town he inquired and learned that it was being put up by a Frenchman for commercial purposes. "Don't allow it," he said, "for his enterprise will be damaged and then we shall have to pay a big indemnity."²

"Nor would it be possible," wrote Lord Milner in his *England in Egypt*³ "to give any idea of the unscrupulousness with which foreign Diplomatic Agents, especially during the reign of Ismail, used their influence to obtain from poor, weak Egypt the payment of even the most preposterous demands. The great object of securing a concession in those days was, not to carry on a useful enterprise, but to invent some excuse for throwing it up, and then to come down upon the government for compensation. Moreover, almost any loss which befell a foreigner . . . even if due entirely to accident or to his own fault, was made the occasion for demanding an indemnity. If his property was stolen the government was to blame for not keeping sufficient police. If his boat ran ashore in the Nile, the government was to blame for not dredging the river. 'Please shut that window,' Ismail Pasha is related to have said to one of his attendants during an interview with some European concessionaire, 'for if this gentleman catches cold it will cost me £10,000.'"

Though the soldier of fortune, the speculative concessionaire and the claim racketeer may sometimes prosper in a state of disorder, aided by occasional vigorous protection and support of damage claims from a home government, the interests of investors abroad usually call for more than assistance in emergencies. Armed protection against bands of marauders and energetic prosecution of claims are gladly received, but the permanent investor of bona fide capital wants a long-run promotion of stability, a strong government which can guarantee tranquillity and the security of property. The speculator—who has bought land, for example—also stands

¹Colliez, *Les associations agricoles entre les Européens et les indigènes au Maroc* (Paris, 1912), p. 8; Marius Cavaillé, *Le Maroc et les perspectives économiques de l'Europe* (Grenoble, 1909), p. 62.

²M. Robert de Caix, interview.

³Tenth edn. (London, 1903), p. 44.

War and the Private Investor

to profit from increased assurance that order will be maintained. This may lead to pressure upon the government of the investors for annexation or the assumption of a protectorate—recall the Samoan case—or, short of an actual colonial policy, it may help to produce a policy of active diplomatic interference in the affairs of nominally independent states with the purpose of preventing chronic revolution and fostering security of property. The best example of this latter sort is the “anti-revolutionism” which has characterized United States diplomacy in the Caribbean countries and Central America.

Until the end of the 19th century the United States maintained an attitude of neutrality toward the factional uprisings which so frequently caused turmoil in the smaller Latin-American countries. This policy was in accord with the traditional doctrine of international law and suited to the memory of the revolutionary origins of the United States itself as well as to the non-interference which had been so insistently demanded from other governments during the American Civil War. Recognition was extended to revolutionary regimes whenever they succeeded in establishing themselves clearly and firmly in power. In recent decades, however, the time-honored policy of neutrality and non-intervention was abandoned. The United States, except in rare instances, frowned upon revolutions and often took a positive stand in support of governments beset by revolutionists. Through discriminatory application of arms embargoes and its recognition policy it helped to defeat insurrectionary movements. President Wilson’s idealistic desire to discourage the use of force and the wish to avoid all occasions for European intervention which might bring complications under the Monroe Doctrine were undoubtedly important in shaping the policy of anti-revolutionism. The development of that policy, however, was coincident with the growth of American investments and American financial and other controls in Latin-America, and it seems clear that its continuance was due in no small measure to the large economic stake of United States citizens in these countries. “American oil companies whose pipe lines have been cut and whose properties have been occupied, American railway companies whose locomotives and cars have been seized, mining men who have been forced to abandon their mines, wood-cutting firms whose river steamers have been taken—all of these and a great variety of other American concerns have deluged Washington in times of

Private Investments and Diplomacy

disorder with requests for protection which the native government has been unable to afford against revolutionists." The concept of a *pax Americana* for unstable countries in the Caribbean and Central America has rightly been called, in large part, an investment policy.¹

A few quotations revealing the attitude of foreign business interests in China during a period of disturbance will show how quick are men with property holdings in weak, unstable countries to lose patience at the impediments to their enterprises which are almost sure to occur, and thereupon to demand that their home governments procure for them even in far-distant lands the blessings of security and stability which they so ardently desire. In June, 1923, the American Chamber of Commerce in Shanghai telegraphed a request to the Department of State for a vigorous and crushing policy which would include forcible disarmament of Chinese troops, foreign supervision of Chinese finances, imposition of foreign control over all means of communication, suspension of Boxer indemnity returns to China, suspension of benefits to China resulting from the Washington Conference of 1922, and coöperation with Great Britain to remedy existing conditions. Again in 1927 the same body urged military intervention:

"We believe that immediate concerted action by the Powers to restore a condition of security for foreign lives and property in all treaty ports and to recover all foreign properties which have been destroyed or confiscated will have a far-reaching influence throughout China to the ultimate benefit of the Chinese people. This result should not be difficult to attain with the naval forces now in Chinese waters."

An American steamship man whose business on the Yangtze had suffered was disposed to advocate the mailed fist even more emphatically. He suggested a policy of reprisals through the bombardment of Chinese towns:

"The Chinese see in our kindness only weakness. If we would reply to continual firing on American vessels by cleaning up a town or two and taking it over, the air would clear immediately."²

¹B. H. Williams, *op. cit.*, Ch. VIII, p. 137. American policy in this respect has been undergoing another change in recent years, signalized by withdrawal of Marines from various countries and renunciation of the treaty with Cuba which gave a right of intervention to the United States.

²B. H. Williams, *op. cit.*, pp. 100-101, citing *London Times*, June 25, 1923, *New York Times*, April 4, 1927, and May 14, 1927.

War and the Private Investor

Thus far we have been considering only those risks to foreign investments which arise out of disorders of one kind or another on the scene of operations, and the assistance rendered by diplomacy in such cases. There is another important type of risk in which investors frequently desire the assistance of their national diplomacy. Sometimes concessions are revoked, concessions withdrawn, contracts violated, or some other adverse administrative action taken by the government of a capital-importing country. In such cases diplomacy may come to the support of vested rights and interests.

For example, when Bulgaria in 1896 undertook the construction of a railway parallel to the lines of the Oriental Railways Company operating within its borders, the Company protested and was supported by the Austrian and German governments and banks, which cut off credits to the Bulgarian government.¹ When the Chinese government endeavored to reduce the rights of the Chinese Engineering and Mining Company in the Kaiping Basin the British government made its opposition effective.² The French government secured improved terms for the bondholders of the Royal Portuguese Railways when they were unfairly treated in reorganization proceedings directed by the Portuguese government.³ The United States supported the Champerico and Northern Transportation Company when Guatemala granted a concession to another firm in violation of a clause in the Champerico Company's contract which provided that no other railroad should be allowed within fifteen leagues on either side of its line for twenty-five years, and the offending concession was withdrawn.⁴

A Russian ukase of May, 1887, directed foreign landowners in the western provinces of Poland to dispose of their properties within a certain time. The Germans who had estates there regarded the requirement as indirect confiscation, for they felt that it would be impossible to sell on good terms. This, combined with existing political irritations, led Bismarck to forbid the acceptance of Russian government securities as collateral for loans at the Reichsbank.⁵

¹Feis, *op. cit.*, p. 299, citing Helfferich, *Georg von Siemens*, II, 11.

²*Ibid.*, p. 113, citing annual report of the Company, 1909.

³*Ibid.*, pp. 149, 245, citing *Report of Council of Foreign Bondholders*, 1893 and 1894.

⁴*Foreign Relations of the United States*, 1888, Nos. 87, etc.

⁵*Die Grosse Politik*, Nos. 1137 to 1143; R. Ibbeken, *Das Aussenpolitische Problem, Staat und Wirtschaft in der Reichspolitik, 1880-1914* (Schleswig, 1928), pp. 105-6.

Private Investments and Diplomacy

With the assistance of Minister Denby described earlier in this chapter, a powerful American syndicate known as the American China Development Company acquired a concession in 1898-1900 for the construction of a railway between Canton and Hankow. This took place in the face of strenuous opposition from French and Belgians. One of the motives which moved the Chinese officials to prefer the American company was their desire to secure the coöperation of capitalists whose government had no political or territorial ambitions in China; so the contract specified that the railway rights could never be transferred to non-Americans. Unfavorable financial conditions developed in the United States, however, and it was not long before it appeared that a Belgian group had quietly bought up the founders' shares and obtained a controlling influence in the company. American engineers in China on the railway line were replaced by Belgians, and the American president of the company was deposed. Thereupon the Chinese government annulled the concession.¹ The United States refused to acquiesce in this procedure and a long diplomatic controversy ensued. The banking firm of J. P. Morgan and Company, acting for the American participants in the company, bought back the shares held by the Belgians. The Department of State informed China that the United States could not "tolerate such an act of spoliation as the forfeiture of the concession would be," and the Chinese government was finally persuaded to buy out the American interests at a price of \$6,750,000.² This, according to W. W. Willoughby, was \$3,750,000 more than the Americans had spent.³

The preservation of a monopoly position in the navigation of the Shat-El-Arab below Bagdad from Basra to the Persian Gulf was the service which the British firm of Lynch Brothers desired of their government, and because they were influential at home and their undertaking had considerable strategic political importance they were able to obtain much diplomatic support. Their service was poor and their rates were high, and their fear that the navigation and harbor projects of the Bagdad Railway might set up ruinous competition was probably justified. They became leaders in the British opposition to the Bagdad Railway. When it was proposed in 1903 to internationalize the railway in order to remove Britain's political objections against a project that would be a decided economic benefit to the empire as a whole, the Lynch

¹This action was taken partly as a result of British pressure, it appears. Tyler Dennett, *Roosevelt and the Russo-Japanese War* (Garden City, 1925), p. 155.

²*Foreign Relations of the United States*, 1905, pp. 124-135.

³*Foreign Rights and Interests in China*, II, 1070-1.

War and the Private Investor

Brothers exerted a quiet but effective pressure on Downing Street in opposition to the plan. One member of the firm was a member of Parliament. "In defense of their interests they wrapped themselves in the Union Jack and called upon their home government for protection; they were patriotic to the last degree. . . . Overcharge their countrymen they might; surrender this prerogative to a German railway they would not!"¹ Diplomatic maneuvering to promote and to retard the Bagdad Railway continued down to 1914, with the Lynch Brothers continually alive to the threatened infringement upon their preserves and pressing their viewpoint upon British diplomacy through the press and by personal influence. The German negotiators found the government of Great Britain so dogged and persistent concerning the navigation rights of this firm that they realized they must make concessions on the point or see the entire negotiations fail.² The various agreements on the Bagdad Railway question which were initialed in 1913-14 contained reaffirmations of the Lynch interests and finally a compromise which absorbed them into a larger navigation scheme.³

A somewhat similar case, but less important in its international ramifications, was the Clyde steamship monopoly in Santo Domingo. "In 1878 the Government of Santo Domingo had granted it freedom from all duties and port charges, and 3½ per cent of the duty on the imports and exports it carried. This was never paid, and the Clyde Line kept remitting the balance due in exchange for extensions of its concession. In 1895 it gave up the right to this 3½ per cent and forgave the arrears in compensation for the provision that all other companies were to pay the tonnage and port charges, which were not to be lowered. Thus Clyde could charge the most exorbitant rates because he was exempt from the heavy Government charges that his competitors had to pay. The celebrated *Cherokee* case of 1903, in which under American naval guns the rights of the Clyde Line were placed above the right of the Dominican Government to protect its existence, broke off all friendly relations between the steamship company and the country on which it lived. In 1906 the Dominican Minister of Finance at-

¹E. M. Earle, *Turkey, the Great Powers, and the Bagdad Railway* (New York, 1924), p. 191, pp. 74, 81-2, 111, 189-195, 210-11.

²Karl Helfferich, *Der Weltkrieg, I, Die Vorgeschichte des Weltkrieges* (Berlin, 1919), p. 86. However, the Lynch Brothers (Euphrates and Tigris Steam Navigation Company) are said to have been subsidized by the British government, at least in their earlier operations. This might indicate that political usefulness, not mere private pressure, enlisted the later support of British diplomacy. (Cf. Sir Arnold T. Wilson, *The Persian Gulf* [Oxford, 1928], p. 266.)

³Earle, *op. cit.*, pp. 256, 259-60.

Private Investments and Diplomacy

tempted to reduce the port charges in an effort to remove some of the handicap to foreign trade. He argued that the rates had originally been fixed in Mexican silver, and therefore had been automatically doubled by the change to gold. The Clyde Company answered that this doubling was merely a part of the consideration they received for canceling their $3\frac{1}{2}$ per cent subsidy, and the American Minister backed their position. Since there were suits pending against two other American concerns at the same time, Dawson [American Minister] suggested to the Dominican President that it would be unadvisable to let the impression become general that the Government was adverse to all American enterprise, and the matter was dropped. The monopoly disappeared when the 1907 Convention went into force."¹

A third type of peril against which diplomacy sometimes comes to the aid of private investment is that raised by unfavorable legislative or constitutional changes in the country of investment. This raises very delicate questions, for diplomatic representations on such matters touches upon the cherished rights of sovereignty and independence of states. Yet foreign offices in protecting their citizens abroad frequently have maintained, most vigorously against the least powerful countries, that there are certain rights of alien property owners which must be regarded, even if they interfere with domestic policies determined upon by the constituted authorities of an independent state. Some of the issues involved here were suggested in the preceding chapter in connection with the brief statement of the controversy which developed around provisions of the Mexican constitution of 1917, and they will be further discussed in Chapter 14. Just now it is enough simply to take note that investors do invoke the protection of their governments against legislative and constitutional measures contrary to their interests, and to illustrate, by concrete instances, some of the types of measures which have produced objection on the part of foreign investors.

The principal sources of complaint have been found in tax laws, in laws designed to break up large landed estates for the

¹M. M. Knight, *The Americans in Santo Domingo* (New York, 1928), pp. 34-5.

War and the Private Investor

benefit of a landless peasantry, and in laws to regulate the exploitation of natural resources, especially oil and minerals. The attitudes which produce the policies objectionable to foreign investment interests are most commonly associated with nationalistic movements, or with social movements of the types known as agrarian reform or revolution, or general social reform or revolution. These latter are ordinarily complicated by a nationalistic movement with considerable anti-foreign bias. The anti-foreign emotion is likely to be intensified when domestic measures affecting alien investors meet with diplomatic opposition from abroad. The economic purpose of much discriminatory, anti-alien legislation is to conserve native resources for native exploitation, either for the benefit of the country as a whole or for the benefit of a ruling class or clique. The political purpose is generally to safeguard the independence of the country, based on the not unfounded fear that foreign capital in a weak country may bring political subjection in its train. No matter for what purpose enacted, such legislation is bound to impress foreign investors unfavorably. They feel their prospects of profit lessened. They not only find opportunities for future investment restricted, but the value of placements already made under the old conditions, and perhaps in perfect good faith, is likely to be impaired. Naturally, they call this confiscation and turn to their home governments for protection of rights that, to their way of thinking, are the basis of society and the essence of law and order. Where a complete and drastic social revolution occurs, as in Russia after 1917, the conflicts centering around vested foreign property rights in a situation of social change are at their maximum and most apparent. Where slower shifts occur, similar conflicts also arise, but they are less evident and less acute.

There is no doubt that the roots of much of the antagonistic propaganda which appeared against the U.S.S.R. during its first decade were in the foreign interests that had suffered from the confiscation of all private industrial property, especially oil wells and mines, and from the non-payment of Tsarist bonds. An in-

Private Investments and Diplomacy

teresting instance of the reaction of foreign capitalists has been recorded by a British diplomatic agent who traveled through Sweden on a venturesome mission to Russia during the height of the revolution. He found foreign owners, and native Russian ones, inclined to prefer German rule in Russia to social revolution, even though Germany was the arch-enemy. The Swedish capitalist, Nobel, "Like all foreigners who had property in Russia . . . was anxious for a general peace and an Allied-cum-German intervention against the Bolsheviks!"¹ The Association of British Creditors of Russia and similar organizations in some other countries have been tireless in their efforts to keep alive public distrust of the Soviet regime and to stimulate an unrelenting public policy which they hope may lead to payment of their claims.² The extent of the actual influence of foreign investors who lost property at the hands of the Soviet government upon the policy of other governments towards it, and the manner in which that influence has been exerted, is a large question which cannot be examined here, but it would be a most interesting subject for further investigation.

In the matter of tax legislation, governments have generally sought by commercial treaty to prevent more onerous taxation on their citizens in a foreign country than is imposed on natives of the country, though in the absence of a treaty taxes on aliens which seem reasonable and apply uniformly to all aliens have been recognized as legal. "A discrimination against the nationals of one or more countries alone would be an unfriendly act, and give rise to diplomatic or more forceful measures."³ Haiti has at various times imposed discriminatory taxes and other irksome burdens on foreign business. The United States protested against these discriminations on numerous occasions (1876, 1893, 1897, 1903, and others), particularly as the treaty of 1864 provided for equality in taxation. The United States also made a protest of the same

¹R. H. Bruce Lockhart, *British Agent* (New York, 1933), pp. 212-13.

²I have before me several of the *Annual Reports* of this organization and pamphlets under such titles as "Justice or Plunder, the Facts about Soviet Confiscation and Dishonesty; Soviet Oil Scandal," "Can We Trade with Russia?" and "Can We Trust the Soviets? Being Twelve Reasons against Credits for the Soviet Government."

³E. M. Borchard, *The Diplomatic Protection of Citizens Abroad* (New York, 1915), pp. 95-6.

War and the Private Investor

sort after abrogation of this treaty, however.¹ Many protests have been made on behalf of American citizens against discriminatory or confiscatory taxes and forced contributions in Mexico. In 1915, when General Obregon exacted a capital levy of three-fourths of one per cent on corporations and individuals in Mexico City, the United States took the view that since the tax was not discriminatory against Americans and its amount was insufficient to be confiscatory no protest was justified on these grounds. Only a few days were allowed for payment, however, with penalties of confiscation, appointment of receivers, and imprisonment for non-compliance. A protest was entered by the United States and other powers against these unreasonable conditions, and the tax decree was annulled so far as Americans and other foreigners were concerned.² In 1916 the local authorities of Vera Cruz sought to raise \$500,000 for the purchase of cereals to feed the poor and sent out a circular letter soliciting contributions. Arbuckle Brothers were requested to contribute \$10,000, the Pan-American Coffee Company \$10,000, and the Pierce Oil Corporation \$5,000. A statement that the authorities would "be disposed to require, by other means, the aid of such persons who give signs of not preoccupying themselves for the public welfare" was regarded as a threat, and the American consul was instructed to protest. The United States suggested that if funds were necessary for the relief of the poor they should be raised by regular taxation as provided by law. Many other protests have been made by the United States against contributions and forced loans which various factions in Mexico have attempted to impose upon American firms.³ In 1915 the military governor of Jalisco, having been dissuaded by vigorous protests from demanding contributions especially from foreigners, attempted to collect a tax levied upon mercantile, industrial, and commercial establishments.

¹*Op. cit.*, and references there cited.

²B. H. Williams, *op. cit.*, pp. 124-5 and sources there cited.

³*Ibid.*, see *Foreign Relations of the United States*, 1914, 1915, 1916, 1917, under the heading: "Mexico: Forced Loans Imposed upon American Citizens."

Private Investments and Diplomacy

The Department of State protested that as establishments of this character were largely owned by foreigners the tax discriminated against them. Carranza issued a decree on March 1, 1915, imposing greatly increased taxes on mining property, payable in gold instead of in the depreciated currency, and with loss of property as penalty for non-payment. The United States held that this decree would inevitably result in the confiscation of many properties, the American owners of which were unable to work them because of disturbed conditions which also rendered it impossible to pay the increased tax, and the American diplomatic representative was instructed to "request immediate and material modification of this confiscatory decree."¹

A summary of some of the provisions of laws and decrees of foreign governments, mainly in Latin America, against which United States diplomacy has raised objection includes the following:

"1. The breaking up of large mining properties by requiring the owner to work each five contiguous *pertenencias*.

2. The accomplishment of the same object by a progressive tax bearing more heavily on the larger properties.

3. The forfeiture of mines not continuously operated.

4. The retroactive impairment of title of petroleum land owners or lessors by requiring, in case of those who have performed positive exploitation acts, the acceptance of a fifty-year concession in exchange for former titles.

5. The impairment of title of those who have not performed positive acts by giving them only a preferential right to a concession in exchange for former titles.

6. The provision compelling foreign corporations owning 50 per cent or more of the stock of companies holding rural lands for agricultural purposes in Mexico to dispose of the same within ten years.

7. The exclusion of foreigners from acquiring concessions, or an interest in corporations owning land or concessions in Mexico, unless they agree not to invoke the protection of their governments.

8. The impairment of the obligation of contracts by compelling the payment of debts in depreciated currency.

¹*Foreign Relations of the United States*, 1915, pp. 927, 931.

War and the Private Investor

9. The payment for expropriated lands by bonds on the basis of the value fixed by landholders for purposes of taxation.

10. The taking of land without adequate provision for compensation further than an unenforceable right to annual payments from the new occupant.

11. Taxation at a rate which is too high to permit of the profitable operation of the property.

12. Taxes or forced loans levied upon special persons or companies.

13. Heavy taxation of special industries which are largely in the hands of foreigners.

14. Taxation of petroleum lands, both upon the soil and the production, thus indicating to the Department of State an intention to nationalize petroleum through taxation."¹

The most conspicuous illustrations of agrarian reform movements which have raised diplomatic difficulties are afforded by Mexico (see the preceding chapter) and Rumania.

During the most somber days of the World War, while the army fought helplessly to resist the German invasion, while famine threatened the country, and while Bolshevik revolution seemed likely to spread to Rumania from Russia, the Rumanian parliament resolved to satisfy the long-standing demands of the agricultural population for land reforms. Thus it was that the parties of the propertied classes themselves modified the constitution and passed drastic legislation to break up large estates and divide them among the peasants. The first law for the purpose was promulgated in 1918 and went into application the following spring. It was much more sweeping than had been contemplated by the leaders of the peasant movement before the war. "The economic life of a whole country was transformed. Rumania passed at a stroke, without friction and without disorder, from a quasi-feudal regime to a modern system of small properties—a fact unique in the history of peoples."²

Holders of large estates were expropriated. Compensation was paid to them, but it was calculated on the basis of the 1913 gold-lei income from their properties and actually paid in currency which

¹B. H. Williams, *op. cit.*, p. 132.

²Noëlle Roger, "La nouvelle Roumanie," *Revue des deux mondes*, 35 (September 15, 1926), pp. 285-288.

Dr. Ion Raducano, "Les conséquences de la réforme agraire en Roumanie," *Revue économique internationale*, 1928, I, 140-147.

Private Investments and Diplomacy

soon had a value only one-fortieth of its former gold value. Furthermore, even this currency payment was in fifty-year state bonds on which the market quotation had soon fallen to less than one-half the face value. Thus, actual compensation was in many cases less than one per cent of the value of the property expropriated. There were no foreign agricultural estates in old Rumania, since a provision of the constitution of 1860, renewed in the constitution of 1923, prohibited aliens from owning rural land.¹ But complications arose when the agrarian reform was applied to the new territories ceded to Rumania at the end of the war—Bessarabia, Transylvania, etc.—for there citizens of foreign countries owned lands. In Bessarabia, formerly Russian territory, the French and British governments exacted compensation for their expropriated subjects many times greater than that accorded to Rumanian nationals.² In Transylvania, acquired from Hungary under the Treaty of Trianon, particularly acute conflicts arose, for 87 per cent of the land was owned by Hungarians. The Treaty of Trianon provided that Hungarians in the ceded territory might opt to keep their nationality, but if so they must move to Hungary; these optants were, however, "entitled to retain their immovable property" in Transylvania. The Rumanian law of 1921 which applied the agrarian reforms to Transylvania provided that the estates of absentees should be subject to expropriation in their entirety,³ and that persons who were out of the country from 1918 to 1921 should be considered absentees. As the Hungarians had quite generally been forced out or had fled at the approach of Rumanian troops after the armistice and had been refused permission to return, this applied particularly to them. Thus the issue of expropriation of property and compensation for vested interests held by foreigners was mixed with one of the emotionally-charged minorities problems created by the peace treaties. Hungary made direct diplomatic representations to Rumania in 1922-3 but got nowhere, then took the problem to the League of Nations and to the Mixed Tribunals set up by the Treaty of Trianon. Hungary contended that it was not protesting against an agrarian reform carried out in good faith, but against confiscations which were unjust and contrary to the provisions of international treaties. Rumania took the ground that the Hungarian demands brought into issue more than a controversy of law,

¹E. M. Borchard, *Opinion on the Roumanian-Hungarian Dispute* . . . (New Haven, 1927), p. 15.

²Francis Deák, *The Hungarian-Rumanian Land Dispute* (New York, 1928), p. 119.

³Except rural estates not exceeding fifty jugars. (A jugar equals 1.47 acres.)

War and the Private Investor

but also "the political and social transformation of a nation." For years the thorny question of the "Hungarian optants" resisted the best efforts of League conciliators and confronted students of international law with vexed questions upon which a whole literature has developed.¹

The methods which governments have used to render their investors the types of protection described in this chapter include practically all of the various means customarily employed by governments to attain their ends in international intercourse. They range, that is, from the most friendly "good offices," which means courteous representations on behalf of the interests of citizens, through official protests and many special varieties of diplomatic pressure (including the withholding of recognition, reminders of war debts or other pending claims, an embargo on loans, trade retaliation), to threats and parades of armed force and actual use of armed force. Outright annexation or the declaration of a protectorate have in some cases helped to provide elements of protection useful to investors; in other cases such indirect methods as financial supervision, customs receiverships, collection of pledged internal revenues, control through economic and financial advisers, have proved sufficiently effective in dominating weaker countries without depriving them of nominal independence.

Friendly good offices are perfectly exemplified in the attitude of the British government toward difficulties that have arisen over English investments in the dominions. The land tax policy of New Zealand appeared unjust and iniquitous to foreign investors. The power development activities of the Province of Ontario were regarded by British interests who financed the Electrical Development Company of Ontario to be an unjust use of governmental power. British investors in the Grand Trunk Railway of Canada fought long and bitterly the treatment accorded them by the Canadian government. In such disputes the British government did what it could to see that the point of view of the investors was appreciated by the other side, but for the most part it left matters to be settled by negotiation between the parties or through the law

¹See Deák, *op. cit.*

Private Investments and Diplomacy

courts.¹ The sympathetic attitude of Ambassador Dwight Morrow during his incumbency in Mexico was an outstanding example of the diplomacy of tact and understanding applied between two countries of unequal power in the solution of problems that had previously evoked bitter dispute and rougher methods. The visits of the Prince of Wales to various parts of the world and the trip of President Hoover across South America between his election and his inauguration may be classed as attempts to apply the diplomacy of friendship and good feeling in the interests of business.

The German government announced in 1908 that it would not recognize Bulgaria's recently won independence from Turkey until Bulgaria had settled the claims of German owners, chiefly the Deutsche Bank, for property taken over from the Orient Railway.² The United States refused for more than fifteen years to recognize the Soviet government of Russia, partly because of the confiscation of American-owned property under the revolution. The weapon of recognition or non-recognition has frequently been used by the United States in putting pressure upon the smaller Latin-American states to protect investors.

The United States and Great Britain not only applied a financial boycott as a means of pressure on Ecuador, but the United States, through the War Industries Board, restricted the importation of Ecuadorean cocoa and thus forced the government to give way in a long-standing dispute with an American company which, using British capital, had constructed the Guayaquil and Quito Railway.³

Active negotiations for a loan from American capitalists were under way with the government of Mexico in 1918 when the Department of State informally reminded the bankers that it would be desirable for Mexico to guarantee American vested property interests against the anticipated effects of the new constitution of 1917 and to agree to the establishment of a tribunal for the settlement of claims. The French government had earlier suggested, through its ambassador in Washington, that apprehension was felt in Europe as well as in the United States regarding the effect of

¹Feis, *op. cit.*, p. 112.

²*Die Grosse Politik*, Nos. 8952-3; Walter H. C. Laves, "German Governmental Influence on Foreign Investments," Doctoral Dissertation at the University of Chicago, 1927, pp. 183-6.

³*Foreign Relations of the United States*, 1915, p. 353; 1918, pp. 401-27. Interest on the bonds of the railway had been guaranteed by the Republic of Ecuador, the road had not operated at a profit, and Ecuador, experiencing financial difficulties, had not met its obligations.

War and the Private Investor

the 1917 constitution, and that since Mexican officials were known to be seeking loans in the United States "it would be highly desirable, in the event of financial assistance being extended to President Carranza, to stipulate guarantees as to (inter alia) the provisions inconsistent with international law that are found in the new constitution."¹ Other instances of the use of financial pressure of this type will be found in Chapter 10.

"Practical diplomatists have long appreciated the protective value to peaceful commerce of a mere demonstration of naval force," says a recent publication of the United States Navy Department.² "Oftentimes simply the movement of a fleet a few hundred miles up or down a foreign coast proves effective without any sinister implication of aggression." The United States maintains naval patrols in three principal areas: in Chinese waters, in the Central American and Caribbean region, and in the eastern Mediterranean. The Naval Intelligence Office said concerning the Caribbean patrol in 1923: "The special service squadron in the Caribbean consists of five small second-class cruisers of little or no use in the line of battle. They are under the command of a rear admiral and are active in protecting our nationals and our tremendous fruit, sugar, and hemp trades, as well as oil and mining interests. The islands of the West Indies and the Central-American Republics are so often the scenes of revolutions, many of which lose their threatening aspect soon after the mere arrival of a cruiser flying our flag, though sometimes it is necessary to send a landing force ashore."³

The policies of the United States in Santo Domingo, Haiti, Nicaragua, Liberia, Salvador, and Cuba, and of other nations in Persia, Egypt, China, Turkey, Albania, etc., illustrate the use of financial controls and various other types of "veiled protectorate" as a technique of outside influence over nominally independent states. Such methods of providing protection for investments have the advantage, as compared with outright conquest, that they are less damaging to the pride of the weaker country, cost less than the maintenance of armies of occupation in hostile lands, and are more flexible, even to the point of being capable of quiet abandonment when new conditions arise. The protection afforded to investments in colonies and protectorates is a source of difficulty when political

¹Edgar Turlington, *Mexico and Her Foreign Creditors* (New York, 1930), pp. 271, 274; *Foreign Relations of the United States, 1917*, p. 1011.

²*The United States Navy in Peace Time* (Washington, 1931), pp. 2-3.

³Navy Department, Office of Naval Intelligence, *The United States Navy as an Industrial Asset* (Washington, 1923), p. 5.

Private Investments and Diplomacy

developments, such as the rise of a nationalist movement, raise the question of freeing the colony from the mother country. Investment interests are likely to oppose the step. Thus, British capital invested in India makes a solution of the Indian problem harder to find, American capital in the Philippines helped to postpone the granting of Philippine independence, promised many years ago, and British capital in the Sudan seems to have complicated the problem of Egypt's relation to Great Britain.

C. INVESTORS INFLUENCE GOVERNMENTS

CHAPTER 7

Type Cases: Mannesmanns and Morocco; Rhodes and the Jameson Raid

THE reader is probably familiar in a general way with the course of political events that led up to one of the greatest of those international crises climaxed by the World War—the Morocco or Agadir crisis of 1911.¹ Beginning in 1902, under Foreign Minister Delcassé, France negotiated secret agreements with Italy, England, and Spain promising France a free hand in Morocco in return for French acquiescence in the ambitions of these powers elsewhere. Then a process of “peaceful penetration” commenced. French bankers and business men were urged to interest themselves in Morocco, military expeditions went in on various pretexts from the neighboring colony of Algeria, and French diplomacy became the dominant influence at the court of the Sultan. But while bartering for the non-interference of other powers, France had neglected to deal with Germany. German trade in Morocco ranked third in volume, immediately after that of England and France, and when France made her peace in advance with all other European states which might possibly show an interest in the country and deliberately² overlooked Germany, German statesmen felt that the snub could not be

¹This case study is condensed from my article “Mannesmann Mining Interests and the Franco-German Conflict over Morocco,” *Journal of Political Economy*, XL (February, 1932), pp. 52–72, with permission of the editors.

²An influential German banker who often served as intermediary between his government and that of France records that a Parisian bank director once told him the following: The banker was called in by Foreign Minister Delcassé, who explained that the French government intended to move forward politically in Morocco and

Private Investments and Diplomacy

accepted in silence. There is evidence also that sinister influences in the German Foreign Office, of which it was purged a few years later with the dismissal of Baron von Holstein, were committed to the "preventive war" theory and were, therefore, seeking to stir up a quarrel with France.¹ Thus it was that in 1905 the Kaiser went ashore at Tangier to deliver a speech which, by phrases emphasizing the independence of the Sultan, in effect was a challenge to France on the Morocco issue. The political tension which ensued was the first Morocco crisis and culminated in the Conference of Algeciras. At this international conference (1906) French diplomacy was, in the main, victorious, though Germany did secure the adoption of a body of rules (the Algeciras Act) which put the affairs of Morocco under international regulation and affirmed the independence of the Sultan.

It soon became clear that France had no intention of allowing the Algeciras Act to impede her "pacific penetration," and several times incidents occurred to aggravate the tension with Germany. At length the leading German statesmen began to doubt the wisdom of quarreling over Morocco. The Kaiser wrote upon a memorandum in 1908, "The wretched Morocco affair must be brought to a close, quickly and finally. Nothing can be done, Morocco will become French. So get out of the affair gracefully in order that we may at last end the friction with France, now, when great questions are at stake."² The result of this new conciliatory policy was the Franco-German Accord of February 8, 1909, in which Germany recognized the paramount political interests of France

that support on economic lines would be desirable, for which he counted upon the coöperation of the banks. Delcassé said that understandings had been reached with Powers signatory to the Madrid Treaty, namely, England, Italy, and Spain. As the banker added, "and with Germany?" Delcassé exclaimed, "Avec l'Allemagne, jamais de la vie!" (Paul H. von Schwabach, *Aus meinen Akten* [printed for private circulation, Berlin, 1927, but never published], p. 335.)

¹Oscar Freiherr von der Lancken Wakenitz, *Meine dreissig Dienstjahre, 1888-1918, Potsdam-Paris-Brüssel* (Berlin, 1931,) pp. 54, 62; H. von Eckardstein, *Lebens-Erinnerungen* (Leipzig, 1919), p. 248.

²P. T. Moon, *Imperialism and World Politics* (New York, 1927), p. 210, citing the Kaiser's notation on Bülow's report of October 5, 1908, quoted from German archives by Brandenburg, *Von Bismarck zum Weltkrieg*, p. 293.

War and the Private Investor

in Morocco, while France agreed to do nothing to hamper German commercial or industrial activity there. A third clause of the accord provided that France and Germany should endeavor to associate their nationals to joint economic enterprises in Morocco.¹ This agreement did not put an end to the Moroccan difficulties, however. Matters went from bad to worse, and at length the German gunboat *Panther* was dispatched to the port of Agadir on the southwest coast of Morocco, again challenging France and demanding, in effect, a settlement with Germany. The international crisis which ensued was long and severe (July 1–November 4, 1911). England and other powers found themselves involved in the tangle, and a general European war was narrowly averted. Finally the question was settled peaceably by a compromise which allowed France to establish a protectorate in Morocco, on condition that all nations should enjoy economic equality there, while by way of compensation Germany received 100,000 square miles of the French Congo.

It is against this background that the story of the Mannesmann mining interests must be told.

Reinhard Mannesmann, the eldest of six brothers, sailed along the coast of Morocco in 1906 on a wedding trip. At various ports where the boat touched natives showed him specimens of iron ore. Reinhard Mannesmann knew something about ore and its uses, for at home in Remscheid, Germany, his family was engaged in the metallurgical industry, manufacturing seamless iron tubes, the so-called Mannesmann tubes, by a process which they had invented. So he questioned the natives closely and made a list of the localities from which their finds had come; then he proceeded to Tangier intending to obtain a concession from the Sultan for the right to work these deposits.²

¹See full text in André Tardieu, *Le Mystère d'Agadir* (Paris, 1912), pp. 1–2, or in my article cited above.

²This and much of the following material is based on a personal interview with a retired German official whose position at the time necessitated that he have an intimate knowledge of the whole Mannesmann episode. He does not wish his name used.

Private Investments and Diplomacy

At Tangier, Mannesmann conferred with the German minister, Dr. Rosen, who, it appears, gave him the sort of assistance that a diplomat in such a country customarily gives to a business man from the country he represents.¹ The partisans of the Mannesmanns claimed some years later, after controversy had arisen as to the support which ought to be accorded their claims by the German government, that the government actually urged and pushed them onward at first.² This would seem to accord with the general line of German policy from the Kaiser's landing at Tangier (1905) until 1908, in certain respects, at least. We know that the tactics usually employed by a national government attempting to block the penetration of another in a given area include urging and pushing its own nationals into enterprises in the disputed territory. The situation of the German government in Morocco after the Algeciras Conference (1906) was a bit peculiar, however. It was interested in sustaining the authority of the international Act of Algeciras and in holding France to strict accountability under it. Now, it so happened that Article 112 of the Act of Algeciras had prescribed that the Sultan should issue a firman or law on the subject of mining rights, in order to establish a regular procedure by which concessions should be granted. This law was to be based upon the existing European practice in such matters, and it was generally understood that until the law had been proclaimed no concessions at all could be issued. Thus, if the

¹Friedrich Rosen, *Aus Einem Diplomatischen Wanderleben* (Berlin, 1931), pp. 294-6.

²Thus, Dr. Wilhelm Arning, *Marokko-Kongo* (Leipzig, 1912), p. 65 and elsewhere: "In fact, the Mannesmanns . . . in the years before 1908 were not only not held back but were actually requested and even urged to proceed." (" . . . Man hat sie gefördert und sogar vorwärts gedrängt.") Dr. Heinrich Pohl in *Der Rechtsfall Mannesmann* (Bonn, 1910), p. 7, and likewise in the *Zeitschrift für Politik*, V (1912), 558-77, makes similar statements.

Pohl writes that in 1904 certain German iron industrialists expressed the intention of securing rights in Morocco, but the German Foreign Office dissuaded them. Then the next year the policy which brought about the Kaiser's landing at Tangier was adopted, whereupon the Foreign Office let it be known that it should like to see these industrialists create German interests in the domains of the Sultan, but this time they refused.

War and the Private Investor

German government was to avoid supplying the French with a pretext for utter disregard of the Algeciras Act it had to be wary about its assistance to the Mannesmanns.

The dispatches in the *Whitebook*¹ submitted to the Reichstag toward the end of 1909 show that on June 4, 1906, Reinhard Mannesmann informed Dr. Rosen that he had discussed mining concessions with Sultan Abdul Asis at Fez and that the Sultan seemed favorably inclined. Rosen asked Berlin for instructions and was told to let the Mannesmanns go their own way for the time being. Later² he was authorized to help bring the matter to the Sultan's attention, since such a procedure might possibly give the Mannesmanns a certain claim to priority of consideration once the mining law had been promulgated. After all, the Mannesmanns were German citizens and the only ones in the field.

Dr. Rosen thereupon obtained a private audience with the Sultan and got him to accept and certify a priority announcement. Dr. Rosen also made the situation under the Algeciras Act perfectly clear to Reinhard Mannesmann, however. He explained that priority might prove of some value if two provisions could be put into the mining law: (1) a provision that claims announced to the Sultan before the adoption of the law were to be considered, and (2) a provision for taking the priority of such claims into account. There was a good chance of securing the insertion of the required paragraphs in the law when issued, for the Mannesmann filing had been kept secret. Rosen also helped to draft and to bring to the attention of the Sultan a mining law suited to these German interests.

In November, 1906, the Mannesmann firm handed in further requests to the Sultan for concessions in all parts of Morocco covering many minerals. The Berlin Foreign Office, apprised of the fact by Rosen, observed that this had the appearance of monopolistic intentions and that Germany

¹"Denkschrift und Aktenstücke über deutsche Bergwerksinteressen in Marokko."

²August 23, 1906.

Private Investments and Diplomacy

must be careful to hold to the spirit as well as to the letter of the Algeiras Act, since she was endeavoring to hold other nations to it. She could not afford to have damaging charges against her policy in Morocco get abroad.¹

Soon after the Algeiras Conference several drafts were submitted to Sultan Abdul Asis to guide him in framing the new mining law required by Article 112. One was that prepared at Tangier by the German minister, representatives of the Mannesmanns, and Moroccan officials. Another was proposed by the French. The French draft was generally supposed to provide that the Sultan should be free to choose at his discretion among the applicants for any mineral concession. This was a provision that the Germans were especially anxious to avoid, for the very good reason that the Sultan, tottering on his throne, was falling more and more into dependence on the French.

On June 23, 1908, a representative of the Moroccan government informed the diplomatic corps that the Sultan had decided to intrust the framing of a mining law to his public works engineer—a Frenchman. The Germans immediately took alarm. To counter this French move the German minister, supported by Berlin, insisted that before the final adoption of such a law it must be submitted to the diplomatic corps for approval. With great difficulty he succeeded in getting an official expression of the corps in this sense at a sitting held August 20, 1908. In so acting to prevent the adoption of a law which might give free choice of concessionaires to the Sultan, says the German *Whitebook*, the government was proceeding in accordance with requests directed to it by German interests in Morocco, including the Mannesmanns themselves.²

It appears that the decision of the diplomatic corps was not made public, and defenders of the Mannesmanns say they first learned of it semiofficially in January, 1909. Meanwhile, they were concentrating their efforts on a pretender to the

¹*Whitebook*, von Tschirschky to Rosen, November 6, 1906.

²Documents, Nos. 18, 19, and 20.

War and the Private Investor

throne who had raised the standard of revolt. The crafty pretender, Mulay Hafid, who later reigned as Sultan but had not yet been recognized by the Powers, needed money for extending his sway. He did not bother himself with legal niceties, therefore, but took care to replenish his empty treasure chest on first payments, gifts, and fees from hopeful concession-hunters. Among the most hopeful were the Mannesmanns, and the reason that their proposals were given more consideration than others was that they had the necessary cash in hand.¹ On October 7, 1908, the yet unrecognized Sultan signed a mining "law" proposed by them and issued a sweeping concession thereunder in their favor. Neither of these documents was published, but the Mannesmann representative took the concession itself to the German consulate in Fez, where it was accepted by Vice-Consul Vassel for official registration with explicit reservations as to its validity. Vassel knew of the decision of the foreign diplomats in Tangier and knew that Mulay Hafid, if recognized, would be bound to accept all the international obligations of his predecessor, including that of submitting the mining law for approval to the diplomatic corps.²

One of the Mannesmann brothers stayed on and negotiated further with Mulay Hafid. "If he remains," wrote Dr. Rosen in June, 1909, "he is going to get rid of a great deal of money."³ Rosen kept advising the Mannesmanns not to

¹This statement does not appear in the *Whitebook* as published, but in a document which the writer had the advantage of using at the Foreign Office in Berlin and which will be referred to as the *Confidential Preliminary Whitebook*. Apparently this preliminary edition (marked "*streng vertraulich*") was printed and circulated among the Foreign Office staff before being revised for publication. In the process of revision some documents were eliminated, others added, and the prefatory remarks were partially rewritten.

²*Whitebook*. An interesting sidelight on the attitude of Mulay Hafid and the great game of hunting concessions is furnished by the *Whitebook* dispatches from Morocco. At the same time that the negotiations with the Mannesmanns were in progress Mulay Hafid was dickering with an Englishman and a Frenchman for the granting of overlapping rights. That these were not actually accorded was due to the fact that the would-be concessionaires lacked ready cash, and not to any scruples on Mulay Hafid's part.

³*Confidential Preliminary Whitebook*. Dr. Vassel, vice-consul at Fez, also reported (in a dispatch of August 6, 1909, included only in the *Confidential Preliminary*

Private Investments and Diplomacy

play Mulay Hafid's game further but to make an agreement with a powerful competitor which had entered the field—the Union des Mines Marocaines.

This Union des Mines was an international association founded in 1907 by M. Carbonel, a French engineer connected with Schneider-Creusot, and included among its adherents powerful French, German, British, Spanish, Italian, Austrian, Belgian, and Portuguese metallurgists, bankers, and even political personages. The French group, composed of Schneider et Cie., its filial the Compagnie Marocaine, the firm of Chatillon-Commentry, the Banque Française pour le Commerce et l'Industrie, Count Armand, and others, owned 50 per cent of the capital, named the president, and elected eight members of the board of directors. The German participation of about 20 per cent, with four seats on the board, was in the hands of Krupp, Thyssen, Gelsenkirchen, the Metallurgische Gesellschaft, and the National Bank für Deutschland.¹ The purpose of the Union was to explore for mineral deposits and to obtain concessions in Morocco. In other words, it was a *société d'études* and, in fact, never conducted any actual mining operations.

The Union des Mines, according to one of its leading personalities, was organized on the initiative of the industrialists concerned and for purely industrial reasons. At the time of founding, it had no political significance. It was an organization of consumers of iron ore, international in scope in order to assure a wide market for the important deposits it hoped to find.²

Whitebook) that Mulay Hafid had been toying with the Mannesmanns. In the infrequent audiences which he accorded them he talked adventurously of plans contrary to the Algeciras Act—of leasing the hinterland of Melilla for ninety-nine years and similar fantastic notions (*Hirngespinnste*). "The Sultan seems to have grasped that it is his divine right to squeeze Mannesmann. He will doubtless make the attempt, and he regards Mannesmann already as a sort of checkbook in his pocket." The only legal form for the transfer of money which the Sultan would discuss was the gift, not the down-payment.

¹Tardieu, *op. cit.*, pp. 44 f.; *Whitebook*, p. 30; E. D. Morel, *Ten Years of Secret Diplomacy* (New York, 1912), p. 116.

²Interview with M. H. de Peyerimhoff, later president of the Comité des Houillères. He represented the Union des Mines in negotiations with the Mannesmanns.

War and the Private Investor

After the Accord of 1909, which, it will be recalled, provided that the French and German governments should "seek to associate their nationals" in Moroccan enterprises, the statesmen of the two nations undertook to fit the mining interests of their citizens into the frame of that policy. Particularly was this the wish of the German government, for it found itself embarrassed by the Mannesmann claims for diplomatic support while other German citizens with equal right to assistance—among them the important firm of Krupp—were interested in the rival prospects of the Union. For this reason particularly, as well as on account of the snarl of overlapping concessions which we have seen to be developing in Morocco, it seemed to the German government that compromise was the only way out. This view was shared by the French, and it thereupon became a preoccupation of both French and German diplomacy to bring about some sort of a fusion or understanding between the Mannesmann brothers and the Union des Mines.

In January, 1909, the Mannesmanns were advised by the German Foreign Office that it could not undertake to defend the validity of their claim based on the Mulay Hafid concessions. They were urged to put themselves in touch with the international syndicate in order that their interests might be cared for along with those of the larger and more powerful concern. Early in March the Foreign Office again sought to bring about an arrangement between the Mannesmanns and the German members of the Union, informing them that a representative of Krupp had offered them one-fourth of the German participation in the Union on consideration of abandoning their separate claims in Morocco. These preliminary negotiations came to nothing.¹

Early in 1909 the Mannesmann brothers seem to have been spreading the rumor abroad that the German government would insist upon the full validity of their claims under the Mulay Hafid concessions. At any rate, on March 24, 1909, Foreign Secretary von Schön wrote to Max Mannes-

¹*Whitebook.*

Private Investments and Diplomacy

mann that he had instructed the German diplomatic representatives in Paris and Tangier to contradict all such impressions and to leave no doubt that the official support vouchsafed to the Mannesmann brothers would remain within certain well-defined limits. "I was forced to take this step," he said, "because the fear which I expressed to you has already begun to prove well-founded; namely, the Imperial Government is acquiring the reputation of defending special German rights bought in secret from the Sultan of Morocco contrary to the principle of the Open Door and the spirit of the Algeciras Act."¹ Von Schön points out in his memoirs that the government could not back the Mannesmanns in all their claims, because to do so would have put Germany in the position of seeking to sidestep those very international controls which she herself had been largely instrumental in shaping. "Entering on such a battle," says he, "would have been to court a sure diplomatic defeat."²

A goodly portion of the international aggravations which followed may be charged to the peculiarly obstinate and hesitating attitude exhibited by the Mannesmanns. Throughout the long-drawn-out negotiations with the Union they manifested a stubbornness, indecision, and inability to agree which proved most annoying to all concerned, perhaps to the Germans even more than to the French. Some of the participants even describe their behavior as unaccountable except on the assumption of some abnormal mental quirk. It is certain that the Mannesmanns did not show the usual businessman's readiness to make a deal but stood like adamant for the complete acceptance of their own extreme interpretation of their rights and thereby considerably snarled the already complicated skein of Franco-German relations.

The first formal attempt to bring about a compromise settlement was made in April, 1909, at Paris, where Mannesmanns and the Union bargained under the eyes of their

¹*Ibid.*

²Wilhelm Eduard Freiherr von Schön, *Erlebtes* (Stuttgart and Berlin, 1921), pp. 107-8.

War and the Private Investor

respective governments. Diplomatic dispatches from Morocco carried the warning that the attitude of the Mannesmann firm was awakening distrust and endangering relations to France; so von Schön wired Ambassador Radolin in Paris that he should press the two parties urgently (*dringend*) toward agreement. "If we are not successful in bringing about such an agreement the result will be a difficult and disagreeable situation both for those whose interests are involved and for their governments."¹

The desired agreement was possible in either of two directions: first, fusion, whereby the Mannesmanns would become shareholders in the Union; second, division of the field of action in Morocco. The Mannesmanns preferred to explore this latter possibility first, for they announced that they could accept no less than a half-interest in the Union, which would have made it more than half German—a solution wholly unacceptable, of course, to the French government. Representatives of the Union thereupon indicated their willingness to divide the known mineral districts in Morocco into two portions of approximately equal promise. Then the Mannesmanns could take their choice. After long and painful negotiations on this basis it seemed that agreement had finally been reached, when the Mannesmann brothers suddenly decided that they could sign nothing without the approval of their brother Reinhard, who was in Tangier. He refused to come to Paris or to deal by telegraph. Negotiations were thus broken off, though the German government strongly advised the Mannesmanns to accept the Union offer, since there was no hope of obtaining terms as good by pushing their original claims. Radolin reported his growing conviction that the Mannesmanns would not agree to anything (*es den Herren Mannesmann um eine Einigung nicht zu tun ist*).²

Shortly thereafter Baron von Lancken of the German embassy staff prevailed with great difficulty upon M. Peyerim-

¹*Whitebook*, von Schön to Radolin, April 8, 1909.

²*Whitebook*, dispatches of April, 1909, especially those of April 22 and April 23 from Radolin.

Private Investments and Diplomacy

hoff, representative of the Union, to journey to Tangier for a consultation with Reinhard Mannesmann. Peyerimhoff set out determined to reach an agreement at almost any cost. It was much more important to him and to the Union that the matter be settled than that one party or the other gain a few more or less of the unproved ore deposits. There were more claims in Morocco than both together could work in many years.¹ Both governments exerted their influence in favor of a settlement. Von Schön wired Rosen that he should do all in his power to bring about agreement and asked Radolin to get the French government to instruct its diplomatic representative in Tangier likewise. "It would create a very difficult situation for all concerned in case no agreement should be obtained." The French Foreign Office sent the desired instructions. But in spite of the anxious efforts of both governments M. Peyerimhoff's trip was fruitless. Though he yielded point after point, he met in Tangier the same hesitating indecision, changes of mind, and inhibition against agreement which had been encountered in Paris. "If Peyerimhoff had offered Reinhard Mannesmann all the mines in Morocco against one franc," said a German diplomat acquainted with the affair and interviewed by the writer, "Mannesmann would have hesitated and finally could not have brought himself to agree." Dr. Rosen reported from Tangier that Peyerimhoff had shown the greatest imaginable willingness to coöperate and stood ready to grant the Mannesmanns advantages which would have given them a property position equal to that of the Union. "That the Mannesmann brothers have rejected this offer is incomprehensible to me."²

At home, in Germany, the Mannesmann brothers were inspiring a newspaper propaganda which quickly assumed large proportions and caused grave concern to the government. They demanded that the Foreign Office defend the entire validity of their concessions and created such a furor

¹Interview with M. de Peyerimhoff.

²*Whitebook*, dispatch from Rosen under date of May 21, 1909.

War and the Private Investor

that von Schön wished to quit his post.¹ The Bülow government was not very popular anyway, and many dissatisfied persons were glad to attack it through its foreign policy. The clamor against von Schön came from many quarters. In fact, the Socialist papers comprised the only important group defending him against the Mannesmann attacks, and that because they saw in the whole Moroccan mess nothing but capitalistic profit-seeking.²

One need not suppose that the Mannesmann brothers controlled any large portion of the German press directly or paid in every case for the championship of their cause—though they did spend considerable sums of money on propaganda.³ There is always a certain section of the press in any country eager to wave the flag, to demand a strong foreign policy, and to accuse a government with scruples about international obligations of abandoning the national interests in favor of foreigners. The Mannesmanns had at their service the vociferous organs of the Pan-German League (*Alldeutscher Verband*), which had long been shouting that Germany should annex part of Morocco in order to provide a market for German industry, a settlement territory under the German flag for German emigrants, a source of raw materials, and, not least, a naval base for the growing German fleet.⁴ The petty tradesmen and professional people

¹"It is not very pleasant here in Berlin," wrote a Foreign Office official to a German diplomat. "You have seen the Mannesmann hubbub in the newspapers. There is really no basis for it, but it doesn't stop. The Secretary (von Schön) is probably right in thinking that it is pointed at him personally. He has a lot of enemies to whom the uproar is very welcome. Schön would like to leave" (Stemrich to Kiderlen, December 23, 1909, in Ernst Jäckh [ed.], *Kiderlen-Wachter . . . Briefwechsel und Nachlage*, II, 40).

²Hans A. Osman, *Die Mannesmann-Rechte und das Weissbuch im Lichte der deutschen Presse* (1910).

³In negotiating with the Union des Mines the Mannesmanns contended that they had expended large amounts on their mine prospects in Morocco and therefore must have a correspondingly large share in any compromise arrangement. The Union answered that most of this money had been spent on propaganda in Germany and in bribes and gifts in Morocco and only a small part of it on actual prospecting. (Interview with M. de Cacqueray, managing director of the *Compagnie Marocaine*.)

⁴*Marokko Verloren?* (1904), *Warum brauchen wir Marokko?* (1904), *West-Marokko deutsch!* (1911), published by the League. Cf. Mildred Wertheimer, *The Pan-German League, 1890-1914* (New York, 1924).

Private Investments and Diplomacy

who formed the membership of the League were fertile soil for the Mannesmann agitation. They probably knew little more about Morocco than its location on the map, and what they could learn from hastily written newspaper articles, but they found a welcome relief from the ordinary drabness of their lives in patriotic enthusiasm. A German commentator rightly observes that the excitement over Morocco centered not around groups of stockholders with investments at stake but around *romantisierende Stammtische*.¹

The methods employed by the Mannesmanns to influence public opinion are instructive. They asserted that they were impelled in their undertakings by patriotic motives and had refused to agree to the Union's offers for the sake of their country's future. A supply of iron, said Mannesmann pamphlets, Mannesmann partisans, and hundreds of editorials, was a question of life and death for German industry. "This is the age of iron." Germany must be freed from dependence on foreign sources for this strategic raw material. Sixty per cent of her iron ore had to be imported from foreign nations, and the dangers of this situation were shown by Sweden's recent action limiting the amount of ore which might be exported. Were the Mannesmann brothers to agree to minority participation in the Union des Mines, their objective of a German-controlled iron supply for Germany could never be attained. Furthermore, ran many of the arguments, the Mannesmanns had been urged forward in Morocco at first by the German government itself, only to be unceremoniously dropped, after they had expended much time and money, so soon as their activities no longer suited the purposes of the Foreign Office.

As to the validity of the concessions which they demanded that German diplomacy support, the Mannesmanns were tireless in adducing legal opinion in their favor. They obtained learned opinions from distinguished international lawyers and professors, all of whom concluded that the

¹A. Willehn, "Internationale Finanz und Internationale Politik," *Europäische Gespräche*, VI (October, 1928), 510.

War and the Private Investor

Mulay Hafid grants were binding. Not only German authorities, but also Spanish, English, Swiss, and even French, were induced to give out such statements.¹ These were published by the Mannesmanns in elaborate brochures and widely circulated.

So a battle of words raged on, with well-nigh disastrous results for Franco-German relations. The German government, under attack in the Reichstag, issued a Whitebook in defense of its policy, and the Mannesmann brothers replied with an impressively documented answer, well supplied with affidavits and legal opinions.² Whenever the government gave out a semiofficial explanation of its attitude the Mannesmann reply was carried by a long list of newspapers, accompanied by criticism of German diplomacy. Men of science wrote articles on Germany's need for iron, on her need for territorial expansion, and on the justice of the Mannesmann claims. Petitions poured in from scattered Chambers of Commerce and from such influential bodies as the Hamburg Ship-Owners' Association, which saw in Moroccan ore a prospect of great benefit to the transportation industry.

The Mannesmanns also organized a syndicate to take over their concessions and interested influential Austrians in it to the extent of 25 per cent. The Austro-Hungarian government was soon inquiring of the German government about the status of the Mannesmann claims. A written agreement was reached with the Duke of Povar in Spain. Six French

¹A dispatch from the German ambassador in Madrid to his Foreign Office describes the proceedings of the Mannesmanns in obtaining legal opinions there. On the advice of Maitre Clunet of Paris—a distinguished French authority who had written an opinion for the Mannesmann side—they went to Dato, president of the Chamber of Deputies, and Moret, leader of the Liberal party. Both issued opinions which coincided with those of Professor Philipp Zorn and the other Mannesmann experts in upholding the Mulay Hafid concessions. They asked and received 600 pesetas each in compensation. (*Confidential Preliminary Whitebook*, dispatch dated June 30, 1909. This dispatch does not appear in the published *Whitebook*.) Perhaps in this case the Mannesmanns were seeking political support rather than legal advice.

²Marokko-Minen-Syndikat, *Beantwortung der Amtlichen Denkschrift und Aktenstücke über deutsche Bergwerksinteressen in Marokko*, Nr. 189 (Berlin, March, 1910).

Private Investments and Diplomacy

members were taken into the Mannesmann syndicate. One of these was a former Parisian prefect of police, Andrieux, who soon thereafter (reports the German ambassador) paid a call upon the foreign minister. The French government informed him that all French citizens were equally entitled to support in their foreign business operations.¹ Thus the Mannesmanns partly internationalized their patriotic enterprise!

Confronted by a menacing tide of public opinion at home, the German government sought desperately again early in 1910 to bring about an agreement between the Mannesmann syndicate and the Union des Mines. Walter Rathenau, a man who had the confidence of Kaiser William II, journeyed to Paris and met M. Stephen Pichon, French foreign minister, who introduced him to the officers of the Union des Mines. Under pressure for conciliation from high places a draft agreement was ready on May 28th, and three days later one of the Mannesmanns arrived. With his arrival the atmosphere changed. "Each day there was a new proposal, a fresh exaction." The Union conceded many points, and once more an accord was reached. June 8th was set as the day on which it should be signed. On that day the directors of the Union were assembled for the purpose when Rathenau entered, declared that the Mannesmanns were demanding new modifications which he considered unjustifiable, and announced that he had resigned his mandate. Negotiations were therewith broken off.²

Yet again in the latter part of 1910 and the first months of 1911 there were attempts, always impelled by the governments, to bring the Union and the Mannesmanns together. One scheme called for the organization of a bank which should acquire the rights of both parties and in which the Mannesmanns, the Union, and a neutral Anglo-German group should hold shares. The division proposed would have given French interests less than half the stock in the enterprise and was not acceptable to them. The Mannesmanns,

¹*Whitebook.*

²Tardieu, *op. cit.*, pp. 48 ff.

War and the Private Investor

in order to satisfy the Pan-German press, demanded the assurance that 40 per cent of all iron mined should be available to German factories at the market price. This project likewise fell through.¹

Meanwhile other phases of the dangerous Moroccan question had been growing more troublesome. The poison injected by the Mannesmann agitation and its reflection in the French and English press had certainly been making their solution no easier. At last the French occupied Fez, Germany sent the *Panther* to Agadir, an English cabinet minister made a bellicose speech, and war clouds lowered. At the height of the tension, while the German government was endeavoring to preserve peace on the basis of territorial compensation in equatorial Africa against a French Morocco, the Pan-German press, "influenced primarily by the Mannesmann Brothers," as Chancellor Bethmann-Hollweg thought, continued, despite official efforts to still its clamors, to demand a part of Morocco for Germany. "That," added the Chancellor in a memorandum to the Kaiser, "is in my humble opinion a chief cause of the nervousness of the German public."²

The Morocco crisis of 1911 ended with the signature of a Franco-German convention on November 4. The detailed stipulations in the convention regarding equality of treatment under the French protectorate for mining enterprises of all nationalities attested once more the great prominence which public opinion in Germany had forced the government to give this subject.

Now that Morocco was definitely French an agreement between the Mannesmann syndicate and the Union des Mines could finally be brought about, and on November 13, 1911, the long and difficult negotiations came to an end. Everyone breathed a sigh of relief. "Ouf!" wrote Jules Cambon, French ambassador in Berlin, to the German foreign minister, von

¹Tardieu, *op. cit.*

²*Die Grosse Politik*, No. 10,728 (August 28, 1911).

Private Investments and Diplomacy

Kiderlen, "this hasn't been very easy, but it will facilitate many things for us."¹

RHODES AND THE JAMESON RAID

In a single individual, Cecil Rhodes, one sees exemplified the complex interweaving of political and economic motives, purposes, and methods which this book seeks to examine in the larger social organization composed of many individuals. He was at once financier and politician, capitalist and statesman, profit-seeker and visionary empire builder. Chief of the British South Africa Company (itself a politico-economic mixture), owner of great diamond and gold mining enterprises in South Africa, leading politician and premier of Cape Colony, inspirer of expansionist enthusiasm among the population of Great Britain, it is never possible to say where the political imperialist in him stopped and the business man began, or that he did this to make money and that to realize the dreams of British glory which he had cherished from his youth. His biographers record that he early conceived high ambitions for the expansion of Britain and for a sort of Anglo-Saxon hegemony over the whole world—a *pax Britannica*

¹*Ibid.*, No. 10,783 (November 14, 1911). An epilogue to the Mannesmann affair came after the World War. An arbitration court finally recognized on equity grounds twelve of the two hundred claims of the Mannesmann interests and valued them at 30,000 gold francs. These rights were liquidated under the Treaty of Versailles along with other German property in Morocco. The Mannesmanns appear to have recovered a certain amount from the German government on reparations account, but in 1931 they were still seeking to obtain more. A brief shown to the writer by Director Erich Niemann of the central office of the Mannesmann firm in Berlin argues that the government sacrificed the interests of the firm to high politics in 1908 and that the *Whitebook* of 1910, by marshaling all the arguments against the validity of their concessions, made it possible for their opponents in the arbitration proceedings to answer all their contentions by quoting German sources. Rathenau and Stresemann, among post-war statesmen, recognized the justice of the Mannesmann case for compensation, according to the firm, and Geheimrat Padel of the Foreign Office, who was the German member of the Arbitration Commission, stated in a report of June 15, 1922, that "I have gained the impression by long and unprejudiced study of the whole affair, that the Imperial Government in its time did grave injustice to these enterprisers."

It has been interestingly observed by Moon (*Imperialism and World Politics*, p. 214, note) that after all the diplomatic effort over iron, that mineral is today not even listed among the exports or resources of Morocco in the country's official *Annuaire économique*.

War and the Private Investor

which would be a boon to humanity. A will made at the age of 24 already directed that his still unmade but prospective fortune be devoted to the promotion of that purpose, presaging the Rhodes Scholarship trust left at his death for uses designed to the same end. And yet his dreams of imperial glory were not unrelated to the profit-making of his economic enterprises. "Pure philanthropy is all very well in its way," he said, "but philanthropy plus five per cent is a good deal better."¹ To Rhodes, indeed, finance and politics were simply two aspects of the same thing: Power.² Money gave him power to plan an all-British railway from the Cape to Cairo and to pursue his other political dreams; political manipulation and imperialist projects helped him to make money. The fascinating thing about Rhodes is that the interaction between politics and finance, which is ordinarily a social process—it ordinarily takes place between more or less specialized interest groups within a larger community where some individuals are mainly business-minded and others mainly political-minded—in his case demonstrated almost all its various aspects within this one personality. Interested readers should turn to a good biography of Rhodes. Only a brief

¹Basil Williams, *Cecil Rhodes* (London, 1921), p. 122. As a matter of fact, his "philanthropies" in South Africa yielded a good deal more than five per cent. His principal adventure in Transvaal gold was The Gold Fields of South Africa, Ltd., founded in 1887 with a capital of £125,000, increased to £1,250,000 by 1892 when the company took the name Consolidated Gold Fields of South Africa. By that time it had given up direct working of nearly all its properties and become a huge share trust company in Rand mines, with Rhodes largely responsible for the management. In 1892 the dividend was 10%, in 1893-4 it was 15%, and in 1894-5 no less than 50%. For several years Rhodes himself drew £300,000 to £400,000 annually from the Gold Fields company. This is not to mention his diamond mines at Kimberley which had made his fortune, nor his many other interests. (*Ibid.*, pp. 94, 111.)

²This seems to have been true also of his associate in financial and imperialist ventures, Alfred Beit. Beit's biographer says that he had no desire for money in itself but threw himself into great enterprise as a game. He left a trust fund at his death for completion of the Cape-to-Cairo Railway. In many of their actions Rhodes and Beit were inspired far more by desire to expand the British Empire and to safeguard British interests as they saw them than by desire for commercial gain. They undertook expansionist activities on their own when official London hesitated, and at certain periods were more British than the British government. (G. Seymour Fort, *Alfred Beit* [London, 1932], Chs. 1, 2, pp. 80-84.)

Private Investments and Diplomacy

account of one episode in his fascinating career can be given here, and that in order to illustrate certain techniques employed by the financier-imperialist to influence public opinion and governmental action.¹

On December 29, 1895, Dr. Jameson, an employee of Rhodes and a manager of the British South Africa Company, crossed the border of the Transvaal Republic at the head of several hundred armed men and marched toward Johannesburg. The purpose was to overthrow the government of Dutch settlers (Boers) and to establish a regime more satisfactory to the foreign mine owners who had acquired a large stake in the new and rich gold mines of the Rand. This was no chance action of an irresponsible hothead. The plot had been carefully laid and long prepared in Cape Town and even in London; it had been instigated, directed, and financed by Rhodes and others, working with a group of foreign miners in Johannesburg. Despite the careful preparations, the plan seems to have gone awry at the last moment and Dr. Jameson "went in" at the actual time without authority from Rhodes while the latter was vainly trying to countermand the scheduled sally. Uprisings that had been counted upon in Johannesburg failed to take place. The Boers captured Dr. Jameson and his little army and put them in prison. Rhodes accepted full responsibility for the raid, and with his associate, Beit, paid costs and fines amounting to more than a million dollars. The whole incident aggravated the long-standing quarrels between the Transvaal and the British of Cape Colony which culminated a few years later in the South African or Boer War. It also occasioned an immense increase in hostility between Great Britain and Germany and thus contributed its part to the naval rivalry and ill-feeling which prepared the World War; this because Kaiser Wilhelm II dispatched a telegram of congratulation to President Kruger of the Transvaal on his capture of Jameson, and thus brought British opinion to boil with indignation.

¹See Chapter 11 on Chartered Companies for a discussion of the British South Africa Company.

War and the Private Investor

The part played by international investments in this particular international difficulty is fairly plain. The discovery of gold on the Rand had led to an influx of foreigners until they far outnumbered the Boers. The policy of President Kruger was to restrict the political influence of the newcomers to the utmost and to maintain the ruling aristocracy of Boer landowners. His leading idea, almost an obsession, was to keep his republic for the Dutch settlers, unpolluted by British interference. He obstinately refused to accord political rights to the fortune-seekers who flocked into his country and even rejected such apparently reasonable demands as municipal freedom for the beehive of mining activity, Johannesburg. Still worse, from the point of view of mine profits, he gave encouragement to disreputable concession-hunters of every nationality except English to exploit the diggers' needs. The most famous grievance of the foreigners on this score was the dynamite monopoly, which raised the price of dynamite to such a point that it was equivalent to an extra tax of many hundreds of thousands of pounds on mining. Against the resistance of the stiff-necked old Boer president to their headlong quest for gold the miners chafed and plotted, especially the financier-owners like Rhodes and Beit who manipulated from outside.¹

When Rhodes later explained the Raid to a committee of the British parliament he said that discontent had been caused by restrictions on the gold industry in the Transvaal, by the denial of civil rights to the rapidly growing foreign population, and by corrupt administration of the government. After long efforts to remedy an intolerable situation,² he continued, leading persons in Johannesburg despaired of redress by constituted means and were resolved to seek by extra-constitutional means such a change in the Government as would give to "the majority of the population, possessing

¹Williams, *op. cit.*, pp. 246-8.

²Foreign mining interests had used other characteristic techniques of political influence. Beit's firm in Johannesburg, for example, gave financial support to progressive Boer (anti-Kruger) candidates for office, though the foreigners themselves did not have the right to vote. (Fort, *op. cit.*, p. 133).

Private Investments and Diplomacy

more than half the land, nine-tenths of the wealth, and paying nineteen-twentieths of the taxes in the country" a due share in its administration. "I sympathized with, and as one largely interested in the Transvaal shared in, these grievances . . ." Beit expressly stated in his testimony that the scheme for assisting an insurrection in Johannesburg originated with Rhodes himself, and it appears that Rhodes' proposal was not immediately accepted at Johannesburg. Many of the rank and file there were luke-warm about rising at all. One of Rhodes' subordinates, moved almost to tears by the hesitation of Johannesburg, telegraphed in the picturesque code of the conspirators to Jameson waiting on the border: "All our foreign friends are dead against flotation and say public will not subscribe one penny towards it even with you as director . . . We cannot have fiasco."¹ The driving initiative in the affair evidently came from the outside financier-imperialists. The motives, as stated by Rhodes, were not related solely to mining enterprise: ". . . further, as a citizen of the Cape Colony, I felt that the persistently unfriendly attitude of the Government of the South African Republic towards the Colony was the great obstacle to common action for practical purposes among the various States of South Africa. . . . I must admit that in all my actions I was greatly influenced by my belief that the policy of the present Government of the South African Republic was to introduce the influence of another Foreign Power into the already complicated system of South Africa, and thereby render more difficult in the future the closer union of the different States."² Rhodes told a deputation from Johannesburg before the Raid that he had two objects in embarking on the revolution: first, to get rid of abuses which affected him as one of the largest mine proprietors, and secondly, to obtain free trade with the other South African states, which would lead to a customs union, a railroad amalgamation, and ul-

¹Williams, *op. cit.*, p. 268.

²*Select Committee on British South Africa. Second Report, with Proceedings and Evidence. British Parliamentary Papers, 1897, Vol. IX, p. vi.*

War and the Private Investor

timately to the South African federation that was one of his dreams.¹

So Rhodes prepared for the rebellion with purse and influence. He sent his brother, a cavalry colonel, to Johannesburg to take charge of the plot there and provided him with unlimited credit. As managing director of the British South Africa Company he arranged for a military force under Dr. Jameson to be stationed on the border. His diamond mining organization at Kimberley, the DeBeers Mining Company, smuggled arms over the boundary concealed in oil drums or under truck loads of coal—a hostile act which the Premier of Cape Colony, Rhodes, might have been expected to prevent. A DeBeers employee was sent to buy supplies and horses and place them at suitable points on the route between Jameson's station and Johannesburg.²

The highly successful methods employed by Rhodes and his associates to turn public opinion at home in favor of their cause constitute one of the most interesting aspects of the affair. It is remarkable that the Jameson Raid, an outrage against the law of nations to begin with, and a rather wretched and unheroic fiasco at the end when Jameson and his entire column surrendered, was nevertheless greeted by a jingoistic outburst of popular enthusiasm in England. Jameson even became something of a popular hero. The reasons are not far to seek.

In the first place, Cecil Rhodes had skillfully won over the English public to his ventures long before the Raid was thought of. The shareholders of the British South Africa Company numbered eight or nine thousand—a compact body of favorable opinion—and the roster of the board of directors included some of the noblest names in England. The annual shareholders' meetings were always crowded, for Rhodes used them less to make prosaic reports than to expound his views on political and imperial affairs in general. Furthermore Rhodes saw to it that he was on friendly terms with

¹Williams, *op. cit.*, p. 263.

²*Ibid.*, p. 264.

Private Investments and Diplomacy

newspapermen, politicians, financial houses, and society leaders. In the second place, the South African press and the flow of news from South Africa to England was well under the control of the financier-imperialist group.¹ The expenses of the conspiracy, paid by Rhodes and Beit, included a press fund to secure a favorable public opinion,² and the publicity for the Raid had been prepared with particular care and cleverness.

Rhodes had won over Moberly Bell, the powerful manager of the *London Times* to his South African projects, and as preparations for the Raid went forward Miss Flora Shaw, writer on South African affairs for the *Times* and one of the most brilliant and accomplished members of its staff, shared in the secret. She became a confidential representative of Rhodes in London and was expected to prepare the way discreetly.³ On December 10th she cabled Rhodes: "Can you advise when you will commence the plan. We wish to send at earliest opportunity sealed instructions representatives of the *London Times* European capitals; it is most important having their influence in your favour."⁴ Colonel Young-husband, *Times* correspondent in South Africa, was in the confidence of the Reform Committee at Johannesburg and carried messages to Rhodes for them.⁵

Another curious propaganda preparation was made by the plotters. Towards the end of November, 1895, as soon as preparations for the Raid were well advanced, Dr. Jameson, who had been with Rhodes at Cape Town, went to Johannesburg and procured a letter signed by the leaders there.⁶ This

¹See J. A. Hobson, *The Psychology of Jingoism* (London, 1901), p. 107.

²Williams, *op. cit.*, p. 277. Continental European journalists were bribed on behalf of South African capitalists. (Interview with M. Robert de Caix, a French journalist and colonialist, who says "I know, because I was offered some of it myself.")

³*Ibid.*, pp. 235, 261.

⁴*Select Committee . . . etc.*, cited above, p. iii.

⁵Williams, *op. cit.*, p. 267.

⁶The signers were Charles Leonard, a lawyer and politician from Cape Town; Colonel Francis Rhodes, brother of Cecil Rhodes; Lionel Phillips, president of the Chamber of Mines and member of the firm of H. Eckstein and Company, representatives of the chief financial power on the Rand, Wernher, Beit and Company; John

War and the Private Investor

letter described the disturbed and discontented state of the city, the likelihood of a conflict with the government and the consequent danger to "thousands of unarmed men, women and children . . . at the mercy of well-armed Boers," and concluded with a request to Jameson that he should come to their help if a disturbance took place. The date was purposely left blank; Jameson was to fill it in when all was ready and use its appeal on behalf of helpless women and children as justification for invading Boer territory. One of the conspirators later testified that the letter was given to afford a pretext which might justify Dr. Jameson with the directors of the British South Africa Company and induce the officers and men under him to participate in the Raid, and that it was never intended to be published. Jameson read this letter to his troops before their start, and it was used by him as ground for his action both to the Boer commandant and to a messenger sent by the British High Commissioner to order his return. As soon as the Raid became known, the letter was cabled on Rhodes' orders to Miss Shaw for insertion in the *Times*, with a date filled in which made it appear that it had been sent as an urgent appeal from Johannesburg just before the Raid.¹ In London it stirred up a wave of popular enthusiasm for the Doctor and his troopers and "inspired one of the worst sonnets ever indited even by a poet-laureate."² While any hope remained that Jameson might

Hays Hammond, an American mining engineer, interested financially in Rand mines; and George Farrar, another large mine-owner. The list indicates clearly enough what interests were engaged in the conspiracy. See *Select Committee* . . . etc., cited above, p. vii. For the connections of the signers, Jan Duncan Colvin, *The Life of Jameson* (London, 1923), II, 14, 32-36.

¹*Select Committee* . . . etc., cited above, p. vii. "Mr. Rhodes himself relied upon this letter in his telegram to the Chartered Company in London on 3d January, 1896, as the explanation of Dr. Jameson's invasion."

²Williams, *op. cit.*, p. 273. A contemporary observer wrote, "The English papers are sickening about the Transvaal, a mixture of swagger and poltroonery. One would have thought the less said about Jameson's ignominious defeat by the Boers the better, but our blessed public must needs make a hero of him, a man who fought for thirty-six hours, and had only fifteen men killed and then surrendered, not a pretence of its being in any better cause than money-making and land-grabbing. The '*Times*' prints a poem in praise of him by the New Poet Laureate . . . so low are we sunk." W. S. Blunt, *My Diaries* (London, 1919), I, 264.

Private Investments and Diplomacy

win through, Rhodes and his associates did their best to promote his success, and they kept up the appearance of success as long as they could. A report was circulated that a victory had been won and Johannesburg nearly reached. But news of the surrender came through. Jameson had not been assisted by the Johannesburgers and it even began to look as though he had not been wanted by them. However, this was the moment obligingly selected by the Kaiser to send his telegram to Kruger, and this aroused patriotic fervor, diverted attention from Rhodes and Jameson, and enabled them to hint at the ambitions of a foreign power as justification for their actions. The fact is that in many quarters in England there was little condemnation of the Raid. Rhodes appeared before a parliamentary committee of investigation, but, he said, "I found all the busmen smiling at me when I came to London; so I knew it was all right."¹

¹Williams, *op. cit.*, p. 285.

CHAPTER 8

How Investors Influence Their Governments

OF COURSE, investors do not depend entirely upon their governments for aid in the placement and protection of capital abroad, even in relation to foreign political authorities. They have various means of self-help, some of them quite effective under the right circumstances. In the weaker investment countries there are not a few instances on record where outside business interests have financed and even organized revolutionary uprisings in order to replace the existing government by one more amenable to their wishes. Financial boycotts have been instituted by bankers in a few cases against governments that were thought to be treating investors unfairly, and some powerful foreign investors, such as the United Fruit Company in Central America, have such a dominant position in the economic life of particular countries that they are able to apply trade boycotts with devastating effect. Organizations of foreign investors, such as the Corporation of Foreign Bondholders in England, the Association Nationale des Porteurs de Valeurs Mobilières in France, and the recently established Foreign Bondholders Protective Council in the United States, while one of their functions is to secure the aid of national diplomacy to investors abroad, also are able to deal independently and exercise considerable pressure on recalcitrant debtors in some cases without political aid. They do this

Private Investments and Diplomacy

through their employment of skilled negotiators and their influence upon financial opinion and hence the credit ratings of borrowers. Wholesale bribery offers another means of control which has not been overlooked by those seeking to place and protect capital. Since the crude or subtle corruption of government at home is a standard technique employed by practically all types of business enterprise that depend upon governmental favors for their profitable operation—think of protective tariffs, public utility franchises and rates—it is not surprising that the same process should be used where privileges are at stake abroad, especially under the concession system, and especially in countries where the political mores are not particularly strong against bribery. Private armies have sometimes been hired by investors in the hope, usually futile, of obtaining protection in that way. Finally, some great enterprises in weakly organized regions have built up their own governmental services in whole or in part, including sanitation, policing, and development of settlements. A few illustrations follow.

It seems sufficiently proved that American companies having interests in concessions supplied money and arms for the Nicaraguan revolution against President Zelaya in 1909.¹ It has been alleged, and denied, that the Madero rebellion against the Mexican dictator, Diaz, in 1910-11 was aided by Standard Oil money, the alleged motive being that Diaz had shown particular favors to the British oil magnate, Pearson (Lord Cowdray). General Obregon charged that the Huerta rebellion of 1923 against himself was backed by British oil interests, particularly the Mexican Eagle Company of the Royal Dutch-Shell combine, and it is said that an American oil baron, E. L. Doheny, lent Obregon five million dollars to suppress the revolt. While these particular allegations may be wrong—it is hard to authenticate instances of this sort—there can be no doubt that foreign oil and land and mining interests in Mexico have many times backed one or another rival contender for power.²

A classic instance of filibustering in the service of investment in-

¹See the concise summary of events in Nicaragua given by Charles A. Beard in *The Idea of National Interest* (New York, 1934), pp. 170-182.

²Parker T. Moon, *Imperialism and World Politics* (New York, 1927), pp. 437-450.

War and the Private Investor

terests occurred about 1856 in Nicaragua. Commodore Vanderbilt and associates had set up a transit line from the Atlantic to the Pacific and were using it in connection with their steamship service to carry gold-rush enthusiasts to California. Morgan and Garrison, two other financiers who held stock in Vanderbilt's Accessory Transit Company, broke with him, and a fight for control of the route developed. The anti-Vanderbilt opposition obtained the support of an American adventurer, William Walker, whose filibustering expedition had earlier been supplied with recruits by Vanderbilt himself. They gave him funds, arms, and ammunition, and when he had gained the upper hand in Nicaragua he confiscated, in the name of the Nicaraguan government, the wharves, warehouses and river steamers of the Accessory Transit Company. Thereupon Vanderbilt countered with money and arms to rival filibusters and sent the army of Costa Rica against Nicaragua.¹

The pressure of German banks with interests in Rumania prevented the passage of a Rumanian law "for the encouragement of national industry" in 1910. These banks—mainly the Disconto Gesellschaft and the Deutsche Bank—possessed great influence in the country, for the government needed their support in placing loans abroad. Shortly afterwards a new law for the same purpose was proposed and adopted, but only after certain provisions had been altered at the instance of the German and Austrian ministers. The feature which met with most resistance from foreign interests was a proposed requirement that seventy-five per cent of the working force employed by every enterprise in Rumania must be native Rumanian.² In 1924 the Liberal government of the Bratianus passed a Rumanian mining law of a strongly nationalistic character which was directed against foreign oil companies and designed to benefit particularly the native capitalists of the Liberal banking clique. It closed state lands to foreign companies and by various means tried to compel them to take in Rumanian interests. The companies appear not to have taken aggressive steps or invoked particularly active diplomatic intervention against the law (though there may have been some diplomatic pressure, and it has been alleged that oil legislation had something to do with a war debt reminder from the United States in 1925)³ but they adopted a pas-

¹Arthur D. Howden Smith, *Commodore Vanderbilt* (New York, 1927), pp. 161 ff., 178-81, 201 ff., 217; Rafael de Nogales, *The Looting of Nicaragua* (New York, 1928), pp. 38-9.

²Report of the Belgian minister in Rumania, quoted in "Belgische Kapitalsinteressen in Rumänien," Report No. 2 of Section VII of the Political Department, attached to the (German) Governor-General in Belgium, 1918.

³Robert W. Dunn, *American Foreign Investments* (New York, 1926), p. 17.

Private Investments and Diplomacy

sive policy and bided their time. The Liberals found the loan market in London and Paris closed to their government, partly through official influence, partly because of a determination on the part of the bankers themselves that they would not lend to a regime that showed such slight consideration for foreign capital. Royal Dutch and Standard Oil interests opposed the 1924 law and Sir Henri Deterding of the former carried on an effective campaign abroad against Rumanian economic policy and Rumanian credit. When the Liberal foreign minister, Vintili Bratianu, went to London in 1928 to negotiate a loan he found the atmosphere decidedly unsympathetic in City circles. He then sent a representative to discuss modification of the oil laws, and had the Liberals remained in power financial pressure probably would have forced them to adopt changes. As it was, the Peasants' Party took over the government and, in line with its policies, passed a new law in 1929 which was much more encouraging to foreign capital.¹

Where the economic life of a country is dependent upon the marketing organization of a single foreign firm the boycott becomes a powerful weapon indeed. Even by 1898 the United Fruit Company under the leadership of Minor C. Keith was a quasi-public institution in Costa Rica and the weal or woe of the state was bound up with that of the company. When in that year a firm with which Keith was doing business went bankrupt, the fruit company itself was in difficult financial straits. To avoid the economic cataclysm which its failure would have meant, the government of Costa Rica came to the rescue with considerable advances. Some years later (1908) Costa Rica proposed to levy an export tax on bananas. The United Fruit Company presented its conditions and demands, but the government did not heed. Thereupon the company staged a suspension, or a reduction, of its business in Costa Rica, which meant severe economic depression for the land, dependent as it was on banana exports through the company's fleet. The purchasing power of the population fell to such an extent that imports declined nearly two million dollars in value, and that in turn seriously embarrassed the government, which got most of its revenue from import taxes. Finally, in July, 1909, agreement was reached on an export tax of one cent a bushel, but the government had to obligate itself not to levy any other tax on the export or the production of

¹Interviews in Bucharest, particularly with Dr. Virgil Madgearu, who was a leader of the Peasants' Party closely concerned with the 1929 law, Minister of Commerce Mihail Manoilescu, and Mr. Gartner of the *Astra Romana* (the Royal Dutch company in Rumania). Also newspaper clippings of November, 1924, and October, 1928, and Gerhard Schacher, *Der Balkan und seine wirtschaftlichen Krafte* (Stuttgart, 1930), p. 32.

War and the Private Investor

bananas for twenty years.¹ The Chamelecon Company in 1917 reduced the fruit loadings which it had been taking from the government railway of Honduras and the planters remained for eight months without overseas connections. This naturally meant ruin for them. Only after the government had agreed to reduction of freight rates by one-half, free use of wharves, and tariff concessions were shipments resumed.²

In the protection of property against the hazards of civil disorder investors in some countries have hired a bandit leader to protect them against other bandits, or perhaps against the regular government, but in most cases this method of self-help ultimately proved a failure, for the hired "protectors" sooner or later showed a tendency to exploit the hirers. This was the case in Persia, where the precursor of the Anglo-Persian Oil Company retained Bakhtiari tribesmen. They soon began to make threats themselves against the company's property, and not until a small escort of Indian troops appeared on the scene and the Bakhtiari chiefs were quieted by further payments in cash and shares did the British community feel secure.³ American capitalists erecting a sugar mill on an estate in Santo Domingo accepted the offer of a local political chieftain to establish a guard to prevent bandits from molesting the property. This guard consisted at first of half a dozen ragged fellows, who soon assumed an air of importance in the neighborhood. In due course this guard became an army, its chief a "General," and the whole outfit a nuisance to the government and the American planters. In Santo Domingo City the "General" was referred to as a bandit, and a force of Marines had to be sent to put him out of business. Likewise in Tampico, the "army" of General Pelaez, supported and paid for by foreign oil companies, had a mushroom growth. He and his force of 3,000 to 27,000 men, depending on the authority quoted, received from \$30,000 to \$200,000 a month from the companies. Their representatives said they dared not turn him out, for he would blow up their wells.⁴

The United Fruit Company found itself impelled to undertake government-like functions in building up a permanent business in the tropics of Central America. It has, indeed, created whole cities, especially harbor cities, performing the necessary work of sanita-

¹Wilhelm Bitter, *Die Wirtschaftliche Eroberung Mittel-Amerikas durch den Bananen-Trust* (Braunschweig, Hamburgische Forschungen, 1921), p. 104.

²*Ibid.*, p. 110.

³Sir Percy Sykes, *History of Persia* (London, 2d edn., 1921), II, 534.

⁴L. J. de Bekker, *The Plot Against Mexico* (New York, 1919), pp. 15, 22, 26-8, 207-8.

Private Investments and Diplomacy

tion, laying out streets, building private and public buildings, public utilities, churches, schools, hotels, restaurants, and hospitals. The company has done important work in the promotion of medical research on tropical diseases. It has built railway systems to connect its plantations with the harbors. It is not too much to say that the United Fruit Company in Central America surpasses the limits of a private concern and is a sort of public institution, albeit managed by its stockholders to produce a profit. Like the Chartered Companies to be described in a later chapter, it has exported not only capital and management, but government and governmental services as well to the countries where it has invested. It differs fundamentally from the modern Chartered Companies, however, in that they usually pursued political objectives first and foremost, while the United Fruit Company has done its developmental work as an incidental but necessary step in a profit-making business.¹

While these techniques of self-help indicate that in the placement and protection of capital abroad investors are by no means weaponless without the support of their home government, it still remains true that the aids which diplomacy can give—detailed in Chapter 7—are frequently very important to them. In order to get such aids, what procedures are available to investors? What brings those in control of the machinery of the state to act in support of private investments abroad, and by what methods do investors influence or seek to influence their decisions?

ACCEPTED PRINCIPLES

The most obvious procedure open to a foreign investor who wishes the support of his government is to approach a government official and state his request, with whatever

¹One observer writes that "The Company appears to have adopted a policy of appealing as little as possible to the United States government for help, which may well account for the minor character of the government's recent activities in the countries where the Company is dominant. Instead, it seems to have built up types of remedies and even of control which lie quite outside the sphere of the United States government's activities, and which, it has been suggested, bear some analogy to the operations of the old British East India Companies." (James W. Angell, *Financial Foreign Policy of the United States*, A Report to the Second International Studies Conference on the State and Economic Life, London, 1933, prepared for the American Committee appointed by the Council on Foreign Relations, New York, p. 48.)

War and the Private Investor

justifying argument he can present. This is constantly being done. Diplomatic and consular agents abroad, foreign offices at home, receive countless written petitions and protests. They interview hundreds of callers—bankers, individual investors, managers of companies, attorneys for these and other interests—all seeking the assistance of their national government to themselves, as citizens, in their major or minor enterprises abroad. Many, perhaps most, of these requests can be dealt with and disposed of as mere matters of routine. They raise no questions which have not been decided before, call for no alterations of policy, are not matters of severe controversy, and are unlikely to cause misunderstandings with foreign governments. But sometimes the assistance desired by investors abroad demands grave decisions of national policy. Shall the government insist upon compensation to Mr. A. for cancellation of his concession, and how far shall it go in case of refusal? Should it defend the validity of B's mining claims, disputed by citizens of another power? Companies with property interests in Country X are demanding vigorous diplomatic representations, gunboats, even armed intervention, to resist drastic decrees promulgated in the name of the proletariat, the peasants, or nationalism. On the other hand, other citizens connected with labor organizations and liberal or socialist groups are answering "Hands off!" What shall the government do?

Evidently the action taken on matters classified as routine and the effectiveness of arguments advanced by investors for action in their favor will depend upon certain accepted principles or traditions which are consciously or unconsciously applied by government officials—principles and traditions as to what the government may and should do for its citizens abroad. Likewise, the decisions on more crucial questions where new policy must be formed or serious political consequences must be weighed will be swayed by the beliefs, opinions, customs, doctrines, habits of thought and action, which exist in the community at the time and condition the reactions of government officials and those

Private Investments and Diplomacy

who have effective means of influence over government officials. These conditioning factors include many things not directly related to the policy of government toward citizens abroad. They include fundamental values and highly regarded symbols prevalent in the community: for example, attitudes toward private property, toward capitalists, toward revolutionists, toward various conceptions of national honor and national interest. Important among them are economic doctrines which may or may not be valid, but which condition thought and action: for instance, neo-mercantilist notions that exports should be encouraged because they enrich a nation, while imports impoverish it, or the belief that only through political control of colonies can industry be sure of getting raw materials. The origin of these beliefs, opinions, customs, doctrines, habits of thought and action is a large question which transcends the limits of this study.¹ Their fundamental importance as part of the environment under which investors seek the support of diplomacy must be emphasized, however. It makes a great difference whether prevalent attitudes regard capitalists in general as benefactors or scoundrels, capital placements abroad as good or bad for the nation, property rights as special privileges in the interests of an exploiting class or as eternal and unchangeable absolutes at the foundation of law and morality. Different attitudes on these matters issue in such divergent views on the proper response of government to the needs of private investors abroad as that found in some liberal quarters—to the effect that the investor takes his chances when he goes abroad, expects a high rate of profit to compensate for the risk, and should not expect his government to come to the rescue when he loses—and that expressed in President Coolidge's famous pronouncement: "Our Government has certain rights over and certain duties toward our own citizens and their property, wherever they

¹To examine their more fundamental aspects one would have to begin by reaching into the historical processes behind modern capitalism, the sociological bases of national consciousness, and other such great problems.

War and the Private Investor

may be located. The person and property of a citizen are part of the general domain of the nation, even when abroad. . . . The fundamental laws of justice are universal in their application. These rights go with the citizen. Wherever he goes, the duties of our Government follow him.”¹

The prevalent attitudes and the accepted principles of diplomatic action in the capital-exporting countries of recent decades have been, on the whole, favorable to the petitions of business men who come seeking support for investments. In the capitalistic cultures of Western Europe and America it has been a not uncommon assumption that “business enterprise discovers what is good for itself, and whatever is good for business enterprise is *ipso facto* good for the country.” It has been uncritically assumed that the sum total of particular business interests abroad constitutes the national interest abroad, and therefore the true function of government in the national interest is to protect and promote private business ventures by various means. “A loan to a foreign government or industrial enterprise is about to be arranged by private bankers; if necessary the Government is to provide appropriate diplomatic assistance. An outlet for commodities is sought; the Government should aid in discovering markets and should protect them against discriminations and disorders.” In short, “Acquisitive enterprises . . . are to supply the data and the substance for the policy of national interest and the Government . . . is to derive its responsibilities in the premises from these sources.”² Atti-

¹Quoted in Charles A. Beard, *The Idea of National Interest: An Analytical Study in American Foreign Policy* (New York, 1934), p. 336, from *New York Times*, April 26, 1927. President Coolidge was speaking before the United Press Association. Professor Beard also quotes from an address by Secretary of the Navy Wilbur to the Connecticut Chamber of Commerce in which the Secretary listed “twenty million tons of merchant shipping . . . worth \$3,000,000,000 . . . loans and property abroad, exclusive of government loans, of over \$10,000,000,000 . . . the volume of exports and imports for a single year, about \$10,000,000,000 . . . the \$8,000,000,000 due us from foreign governments,” among the material portions of national interest which the American navy must unhesitatingly defend abroad. World-wide interests require world-wide defense. An American child crying on the banks of the Yangtze a thousand miles from the coast can summon the ships of the American navy up that river to defend it from unjust assault.” (*New York Times*, January 11, 1927.)

²Beard, *op. cit.*, pp. 412-13.

Private Investments and Diplomacy

tudes such as these have affected government officials and have facilitated the influence of business men on diplomacy.

Then the prestige of business men in a society organized economically around pecuniary pursuits, the esteem which clings to riches, the reputation and the real or fancied power enjoyed by the bigger merchants and financiers, insures them careful attention from government. Some of them are able to go directly to the topmost officials. Thus, the biographer of J. Pierpont Morgan records that when something went wrong with a Chinese railway project in which the financier was interested (probably the American China Development Company affair mentioned in Chapter 6) Mr. Morgan cut short a visit in Europe and "returning to America, went straight to call upon President Roosevelt at Oyster Bay. He intended to have a frank conversation with the President and to dispose of the matter in his own way. He did both. . . ."¹ The business man abroad, furthermore, has in his favor the powerful psychological prejudice of his national group against the "foreigner" who does not belong to "us." A business victory over grasping foreigners abroad by equally grasping fellow citizens can be dramatized as a national success, and a defeat as a national humiliation. The business man abroad often has an intimate knowledge of detail which gives him an advantage in presenting his case to government officials. Foreign office executives, even diplomatic and consular agents on the spot, have much less information on many special questions that arise, or depend on him for their information. In countries far from home the citizens and government representatives, civil and military, of each nation are closely associated and tend to acquire similar viewpoints. "They form local colonies. They have business and social affiliations. They communicate constantly with one another. They have many common ideas about the scenes in which they find themselves and the opportunities of economic development there. In some matters the

¹Carl Hovey, *The Life Story of J. Pierpont Morgan* (New York, 1912), pp. 282-3.

War and the Private Investor

initiative for government action comes from private citizens; in others it comes from the official side. By such processes private and public views are fused, altered, consolidated.”¹ Sometimes governments have put themselves under obligation to investors abroad by using them in some of the ways discussed in Chapter 4. At other times the information and experience possessed by the investor renders him a valuable adviser to government officials, and this not only tends to shape government policy in accordance with business views, but sets up a coöperative relationship which gives the investor easy entrée when he wants to ask for support in the future. Charles R. Flint, for example, an American financier with extensive experience and interests in Latin America, was often called upon by Secretary of State Blaine for advice. His memoirs record participation in Pan-American diplomatic conferences, and when a revolution in Brazil broke out, Blaine summoned him urgently to Washington.²

All these factors contribute to the influence of private investors with interests abroad on governmental policy abroad. So do the social and personal ties which connect those who rule business with those who rule diplomacy. This aspect of the matter deserves special consideration.

THE INTERLOCKING DIRECTORATES OF POLITICS AND FINANCE

Personal unions not infrequently unite the precincts of government where decisions on diplomatic support of foreign investments are made with the precincts of business where foreign investments are controlled. That is, some individuals hold positions of influence or authority in both realms at once, or they pass back and forth from one realm to the other, permeating each with the attitudes of the other and shaping the policies of each to accord with the desires of the other. Cecil Rhodes was such an individual. Karl Helfferich, director of the Deutsche Bank, son-in-law of its founder,

¹Beard, *op. cit.*, pp. 193-4.

²Charles R. Flint, *Memoirs of an Active Life* (New York, 1923), p. 89.

Private Investments and Diplomacy

and general manager of the bank's Bagdad Railway enterprise, was another. He started his career as a professor of political science in the University of Berlin. In 1901 he entered the government service and became assistant secretary in the colonial department of the Ministry of Foreign Affairs, where he was known to be in the good graces of the Kaiser and of Chancellor von Bülow. It was said that he became their chief adviser on Near Eastern affairs. Then in 1906-07 he took over the direction of the Deutsche Bank's railway interests in the Near East.¹ In France, M. Rouvier managed a private bank before he became Minister of Finance in 1902. As a private banker he had negotiated with the Deutsche Bank concerning Turkish railway affairs. He continued to be interested in these affairs while a member of the cabinet and also pushed a project for unification of the Ottoman debt.² In England, a former prime minister and secretary for foreign affairs, Lord Rosebery, belonged by marriage to the Rothschild family, and Lord Murray, a whip of the Liberal Party, was director of one of the greatest English firms (S. Pearson and Son) headed by Lord Cowdray, whose oil and other interests were spread throughout the world. In the United States,³ Andrew W. Mellon, one of America's richest men, was Secretary of the Treasury under Presidents Harding, Coolidge and Hoover and then Ambassador to England. The ramifications of his extensive business interests and those of his family extended wide outside the boundaries of the United States and included oil and other property in Mexico and Colombia where diplomatic controversies with the United States went on during his years in office. There is evidence that he did not always avoid exercising an influence on these matters in which his

¹The appointment naturally aroused widespread comment and was regarded in Great Britain as "an ominous sign that a very real connection existed between the economic enterprises of the Deutsche Bank and the Near Eastern activities of the German Foreign Office." (E. M. Earle, *Turkey, the Great Powers, and the Bagdad Railway* [New York, 1924], pp. 97-8.)

²André Chéradame, *La question d'Orient* (4th edn., Paris, 1915), p. 274.

³See older editions of *Who's Who* (London).

War and the Private Investor

official and his private status were not clearly separable.¹ Senator Dwight Morrow, before going on his conciliatory mission as Ambassador to Mexico, where he smoothed over the oil and land law difficulties, was a partner in the banking house of J. P. Morgan and Company. Willard Straight was first an official consular agent of the State Department in Manchuria, then a representative of the American financial group formed by E. H. Harriman, Kuhn, Loeb and Company, J. P. Morgan and Company, and others under the auspices of the State Department to handle Chinese railway and loan business and to participate in the Consortium. Later he was with J. P. Morgan and Company.² The Japanese chief of the Sino-Japanese corporation which helped secure control of the Chinese Hanyehping coal, iron, and steel works for Japan was the Vice-Minister of Foreign Affairs, Kurachi.³ Among the French directors of a Franco-Russian company which was to have undertaken a Trans-Persian railway in order to extend Russian influence and to offset the German Bagdad line, was "an influential member of the Chamber

¹The De Barco oil concession, cancelled by the Colombian government in 1926, belonged to the Gulf Oil Company, controlled by Mellon interests. The concession was a subject of dispute and diplomatic representations for years. In 1930 Dr. Herrera, who for eight years had been Colombian minister to Washington, was elected President of Colombia. When he visited the United States again before taking office he was very kindly received, according to his own account, both by old friends and by "other persons who, connected in some way with Colombia, found an opportunity to get in touch with me, the President-elect, and to discuss affairs of our country. . . . The Secretary of State, Mr. Stimson, gave me a dinner in the name of the Government, and among others, Mr. Mellon, Secretary of the Treasury, attended this dinner. We frankly discussed the problems of Colombia in which he showed his interest. . . ." "Mr. Mellon then said to me: 'Settle your pending questions on petroleum; decide fairly and justly the difficulties which have been presented in this respect; and once you have adopted a policy which gives stability to the industrial activities in this branch, there will be opened for Colombia, no doubt, ample ways for its economic progress and for its financial restoration.'" (*Sale of Foreign Bonds or Securities in the United States*, Hearings before the Committee on Finance of the United States Senate, 72d Congress, 1st Session [Washington, 1932], III, 1918, quoting *El Tiempo*, Bogota, August 7, 1931.)

The New York Times reported that in the same press interview President Herrera "reiterated his confidence in eventual benefits of the Gulf Oil concession, and recalled Secretary of the Treasury Mellon's advice to him to settle the petroleum problems to hasten Colombia's recovery." (*Ibid.*, p. 1905.)

²Herbert Croly, *Willard Straight* (New York, 1925).

³A. M. Pooley, *Japan's Foreign Policies* (London, 1920), p. 163.

Private Investments and Diplomacy

of Deputies, M. Bluysen," and a former Director of Political Affairs in the Foreign Office, M. Raindre.¹

These examples might be multiplied. If one were to include not only political personages with considerable direct influence on foreign affairs, but also lesser politicians and members of national legislatures, and if one were to count not only business leaders with important interests abroad, but business men generally, the list of personal unions showing the inter-permeation of business and state rulership would be still more impressive.² Or, if one were to direct attention strictly to personal unions between foreign investment and foreign policy, but were to include close family relationships, the list could be lengthened. We have noted that when the Banco di Roma was penetrating Tripoli the Vice-President of its Board of Directors was Romolo Tittoni, and the Minister of Foreign Affairs was Tommaso Tittoni, his brother.³ Lord Revelstoke of Baring Brothers and Company, one of the bankers consulted by the British Foreign Office on important financial questions like the Bagdad Railway, was a brother of Lord Cromer (Evelyn Baring) who ruled Egypt for England; a cousin was Lord Northbrook, Viceroy of India.⁴ When the Banque Industrielle de Chine, under Senator André Berthelot, suffered financial reverses

¹Herbert Feis, *Europe the World's Banker: 1870-1914* (New Haven, 1930), p. 380, footnote.

²In the spring of 1930 the parliament of France comprised 144 Deputies and 118 Senators, who together are said to have held 1019 positions as directors of business corporations, banks, and the like. (Richard Lewinsohn, *Das Geld in der Politik* [Berlin, 1930], pp. 250-253, citing "Parlementaires et Financiers," by R. Mennevée, *Les Documents Politiques* [Paris, April, 1930]).

According to a study made by the research organization of the Labour party, the 255 members of the House of Commons in 1923 had directorships in 713 companies, while the members of the House of Lords were charged not only with the general welfare but also with that of 761 companies. Banks were represented by 19 directors in the lower house and 66 in the upper, shipping companies by 30 and 26 respectively, the heavy industries by 30 and 50, and so on. (*Labour and Capital in Parliament*, Labour Research Department, London, 1923. Cited by Lewinsohn, *op. cit.*)

³Chapter 3.

⁴Zetland, *Lord Cromer* (London, 1932), pp. 19, 49-51; Burke's *Peerage and Baronage* (London, 1921).

War and the Private Investor

in 1921, the French Foreign Office's diplomatic agents, under Philippe Berthelot, came to its assistance with a denial of unfavorable rumors, and this raised a cry of scandal in France.¹

Close friendships between rulers of politics and rulers of finance have also been links connecting the two realms. A famous example is Chancellor Bismarck and the banker, Gerson von Bleichröder. The latter, who as court and state banker and also as administrator of Bismarck's own private fortune, had great influence with the Iron Chancellor, was for a time the only person admitted to his office unannounced. Bleichröder's connections with the Rothschilds of Paris and London, who in turn had confidential relations with the ruling persons there, made him a useful channel for the dispatch and receipt of secret political messages not suitable for the regular diplomatic routine, a channel of which Bismarck made full use. Bleichröder even considered himself an unofficial member of the Foreign Office staff and was in the habit of referring to Bismarck as "our honored chief."² It was Bleichröder and another of Bismarck's banker friends, von Hanseemann, who handled the financial phases of the Godeffroy reorganization described in connection with Samoan affairs (Chapter 5) and they had a large influence on Bismarck's colonial policy in general. Sir Ernest Cassel, a born German who went to England in his early years and became one of the world's leading financiers and an important figure in Bagdad Railway negotiations, was on very friendly terms with the Prince of Wales, later King Edward VII. He was the King's banker, a trusted political adviser, and his almost daily companion at bridge for some years. Albert Ballin, head of the Hamburg-American Line, enjoyed similar intimacy with Kaiser Wilhelm II of Germany, and the correspondence between Ballin and Cassel carried feelers between the governments of their respective lands.³

¹Lewinsohn, *op. cit.*, pp. 253-4.

²Friedrich Thimme, "Auswärtige Politik und Hochfinanz," *Europäische Geschichte*, 1929, VII, 288 ff., Lewinsohn, *op. cit.*, pp. 44-5.

³Bernhard Huldermann, *Albert Ballin* (Berlin, 1922), pp. 204 ff.

Private Investments and Diplomacy

Still more general, however, is the ordinary social connection between leaders of the interlocking worlds of finance or big business and high politics or diplomacy. They belong to the same clubs, they are invited to the same dinners, they meet at the hunt, or on the golf course or at the race track. The daughters of one marry the sons of the other. There is a class consciousness among the elite of business and government which in many cases is as strong as any class consciousness among the proletariat. It is inevitable that a "we" feeling arises which makes it easier for foreign policy to take account of business wishes and for investors abroad to assist the purposes of statecraft. Kaiser Wilhelm II writes in his memoirs that he often visited Admiral Hollmann's house "and there associated with the gentlemen at the head of the Deutsche Orient-Gesellschaft."¹ An American banker with wide international contacts has described to the writer the peculiar half-governmental, half-business composition of dinner groups to which he has been invited in various national capitals. "I know State Department men," he added, "and I go to see them when I am in Washington." These partly personal and partly business relationships naturally arise in the course of much dealing together and facilitate further coöperation. "I, as counsel for the National City Bank, have a long-standing acquaintance with many members of the State Department," testified a witness before the Senate committee investigating foreign loans.² Factors such as these rarely have a decisive effect either on governmental or on business decisions, but they smooth the way and help to explain how investors get the aid of their governments, and, conversely, how governments get the coöperation of private investors.

MEANS OF INFLUENCE AND PRESSURE

If the accepted principles of governmental action toward investments abroad, prevalent attitudes, economic and polit-

¹*Ereignisse und Gestalten* (Leipzig, 1922), p. 193.

²*Sale of Foreign Bonds or Securities in the United States*, cited above, testimony of Mr. Lancaster, III, 1683.

War and the Private Investor

ical doctrines, interlocking personal connections, ties of friendship, social and business acquaintanceship, and sentiments of class consciousness are insufficient by themselves to secure to the foreign investor what he wants from his government—and they frequently are insufficient—he is still not at the end of his resources.

Sometimes a foreign investment enterprise becomes so associated in the public mind with the prestige of the nation itself, or holds such a key position in some strategy of national political expansion, that a mere threat on its part to quit, and especially to transfer its undertakings to foreign hands, exerts a powerful pressure on the government. The Banco di Roma hinted that it might have to sell its interests in Tripoli.¹ The fact that the Godeffroy firm had mortgaged its Samoan establishment to English bankers intensified the German government's resolution to come to its rescue.² State Department officials now and then had to exert themselves with American bankers who had been persuaded to put capital into the Caribbean region in order to "keep them on the reservation," and this certainly gave the bankers' complaints a special claim to attention.³ The Imperial British East Africa Company threatened to withdraw its outposts from Uganda and demanded a subsidy as the price of maintaining "British interests" which it had created there and protecting missionary stations that would be endangered by its withdrawal.⁴ Only undertakings that are serving political ends have such means of influence.

Major foreign investments are usually administered by rich men, and the power of money in politics is well known. It can be used to influence diplomatic action as it influences other functions of government. Direct bribery of foreign office officials, diplomatic agents, and those connected with the formulation of foreign policy is doubtless extremely rare,

¹Chapter 3.

²Chapter 5.

³See Chapter 10.

⁴Chapter 11.

Private Investments and Diplomacy

for the mores in most capital-lending countries are opposed to the purchase of political influence at retail, and the personal integrity of the officials involved is usually high. Nevertheless, occasional exposures like those of the methods by which E. L. Doheny and H. F. Sinclair obtained the right to exploit naval oil reserves in the United States—extending to the corruption of at least one cabinet member—make one wonder what unexposed transactions may have promoted governmental assistance to the foreign investments of these and other investors at times. Doheny testified that “being the American with more property in Mexico than any other American” he had been particularly grateful to the sub-committee of the U. S. Senate Committee on Foreign Relations which, under Senator Fall, had conducted hearings in 1919–20 “to investigate the matter of outrages on citizens of the United States in Mexico.” He sought to explain thus his willingness to “lend” his good friend Fall, who by that time was Secretary of the Interior, \$100,000 in cash.¹ Indeed, the tendentious testimony given wide publicity by the efforts of the Fall sub-committee was an immense aid to the oil men in their campaign against Article 27 of the Mexican constitution.²

The power of money mainly exercises its influence upon government in more subtle ways, however, which are not ordinarily considered illegitimate, but which are nonetheless corrupting in the broad sense that they help to turn governmental action away from service to the masses of people toward service to those who have much wealth.³ The system

¹*Leases upon Naval Oil Reserves*, Hearings before the Committee on Public Lands and Surveys, U. S. Senate, 67th Congress, 4th Session, Pursuant to S. Res. 282, 294, 434 (Washington, 1924), p. 1952.

²See *Investigation of Mexican Affairs*, Hearings before a sub-committee of the Committee on Foreign Relations, U. S. Senate, 66th Congress, 2d Session, Pursuant to S. Res. 106, directing the Committee on Foreign Relations to investigate the matter of outrages on citizens of the United States in Mexico (Washington, 1919–20).

³That is, “democracy” is thus converted into “plutocracy,” to use Lincoln Steffen’s phrase. See his fascinating general discussion of this subject in his *Autobiography*.

War and the Private Investor

of contributions to party campaign funds does this, as does support of political machines, and strategic distribution of stock ownership among influential groups.

Cecil Rhodes made a large contribution to the Liberal Party in England on condition that it would not "scuttle" out of Egypt, the northern terminus of his projected Cape-to-Cairo railroad.¹ Usually, however, there is no stipulated *quid pro quo* with campaign gifts. The wealthy contributor purchases a general "pull" with party chiefs which simply assures a friendly reception for future requests he may have, and he helps to see that persons with his own notions of the relation of government to business come into political power.

Rhodes also secured powerful support for his enterprises by making eminent members of the nobility in England members of the board of the British South Africa Company and by selling its stock widely among all classes of people. In South Africa he brought out 125,000 shares and persuaded as many South African colonists as possible, both Dutch and English, to acquire a financial interest in the Company. He helped some members of the Cape parliament out of their difficulties, and "by the distribution of Chartered shares others were attached to his interests. Of conscious bribery he was no doubt quite guiltless, but his wealth and his manifold activities as chairman of DeBeers and the Gold Fields, as managing director of the Chartered Company, and as Prime Minister of the Colony inevitably tended to rivet many connections and incline a large number of Cape politicians to regard his tenure of power as indispensable."²

In Holland the stock of the leading oil company, the Royal Dutch, is said to be very widely owned, especially among the official class, which gives the company support as substantially a national enterprise.³

Those who have money can hire the services of attorneys, including attorneys who are prominent political personages, have an entrée to party councils, and know the ropes in government departments. Former government officials may be hired as attorneys or advisers, or may be taken into the

¹Sir Lewis Michell, *The Life of the Rt. Hon. Cecil John Rhodes* (London, 1920), p. 49.

²Williams, *op. cit.*, pp. 135-6, 142, 192.

³Stanley K. Hornbeck, "Struggle for Petroleum," *Annals of the American Academy of Political and Social Science*, 112 (March, 1924), 170.

Private Investments and Diplomacy

business. The effect of this is twofold: In the first place, the connections of the men hired and their prestige may help their employers to influence the government more effectively. In the second place, as retiring officials step into lucrative business opportunities or into jobs with oil companies and banks and law firms representing big business interests, prizes are thereby dangled before the eyes of those who still remain in the government service. Public officials are often underpaid in any case, and talented and ambitious government servants may thus be led, consciously or unconsciously, to act in ways which keep them in the good graces of enterprises with which they have dealings.¹ It should be emphasized that in the examples which follow the personal integrity of many of the persons mentioned is of the highest, and that under accepted standards of conduct they have been guilty of nothing illegitimate. That is just the point. These are some of the legitimate, socially accepted practices which function in the social system as means whereby those who command wealth, among them foreign investors, may use that wealth to influence—some would say to corrupt—the government.

E. L. Doheny, according to his own testimony, kept a large number of important ex-government officials on his payroll, unquestionably for the influence he thought they might have as well as for their legal talent. He secured the services of William G. McAdoo, ex-Secretary of the Treasury and son-in-law of President Wilson, in connection with Mexican oil difficulties by a \$100,000 retainer to McAdoo's law firm soon after the latter retired from office and while the administration under which he had served was still in power. McAdoo testified that he scrupulously avoided personal appearances before the State Department while the Democratic administration was in office, sending his partner instead, but he went to Mexico for negotiations with President Obregon.² Doheny

¹E. L. Doheny testified that ". . . there are few men who expect to quit the Government that do not come around and look to the large concerns to look for positions of some sort. I suppose I have dozens of positions asked for. . . . They are all looking for positions that give better pay than they get in the regular service of the Government." (*Leases upon Naval Oil Reserves*, cited above, p. 1803.)

²*Leases upon Naval Oil Reserves*, cited above, pp. 1939, 1970, 2059 ff.

War and the Private Investor

also employed ex-Secretary of the Interior Lane, who became vice-president of one of his companies and general assistant and adviser at \$50,000 a year.¹ Ex-Attorney General Gregory was hired by Doheny's company and several others to seek the aid of the United States government for securing certain drilling permits from the Mexican government. "We thought his acquaintance with the State Department or the President . . . would give us the entrée, open the door to it so that we could explain our situation."² Five months after retirement from the government service, where he had been head of the Committee on Public Information during the war, Mr. George Creel entered Doheny's employ as publicity consultant in connection with Mexican affairs at \$10,000 a year, but resigned after three months.³

In the testimony taken by a United States Senate committee investigating foreign loans in 1932 it is interesting to observe how frequently former under-secretaries of the State and Treasury departments are mentioned as associated with counsel for the National City Company, or for the Morgan-controlled Carib Syndicate which interested itself in Colombian oil, or for other organizations having large interests abroad.⁴ It also developed that Mr. Herbert, one-time chief of the Latin-American division of the State Department, subsequently represented the Gulf Oil Company in Venezuela,⁵ and that S. A. Maginnis, former minister to Bolivia, went to Peru in 1927 to negotiate loans for J. and W. Seligman Company.⁶

In France the banks have often been expected to reserve places on their directorates for discharged ambassadors and retired officers

¹*Op. cit.*, pp. 1940-1, 1014, 1804, 1937.

²*Ibid.*, p. 1938.

³Creel testified that at the time of his employment Doheny "protested very vehemently that he was sick and tired of being called an interventionist, when all that he desired was peace and love and justice," but soon "we were not only not seeing eye to eye, but we were not seeing in the same general direction. He was a man who seemed utterly unable to view anything except in the light of his own desires. Whatever he wanted was right, whatever was opposed to him was the work of enemies and devils." (*Ibid.*, pp. 2123 ff.)

⁴With Sullivan and Cromwell, counsel for the Carib Syndicate, was Mr. Robert E. Olds, former Under-secretary of State, and Mr. Allen W. Dulles, former chief of the Division of Near Eastern Affairs, Department of State. With counsel for the National City Company was Mr. Garrard Winston, former Under-secretary of the Treasury. (*Sale of Foreign Bonds or Securities*, cited above, pp. 1812, 1814, 1833, 1886, and *Who's Who in America*.)

⁵*Ibid.*, p. 1814.

⁶He worked on commission, receiving \$40,000 for the flotation in which a half million dollar bribe was paid to the son of the president of Peru. (*Ibid.*, pp. 1284, 1288-9.)

Private Investments and Diplomacy

of the Ministry of Finance. Poincaré made reservations for Philip Crozier, Ambassador to Vienna, and for George Louis, Ambassador to St. Petersburg. The Banque de l'Indo-Chine, in particular, was expected to receive such officials, and some were always on its board of directors.¹ M. Jules Cambon, former Ambassador to Berlin, after the war was a vice-president of the Banque de Paris et des Pays Bas and president of the affiliated Banque des Pays de l'Europe Centrale, which interested itself in banks, railways, oil, and other enterprises over much of Europe and outside Europe.²

Among the high officers of the Royal Dutch oil organization in Holland the following have been listed: Mr. de Jonge, formerly active in the colonial ministry and then minister of war; Mr. August Philips, former ambassador of Holland to the United States; Mr. Colijn, former minister of war, who later severed his connection with the company and returned to politics. A former chief of the intelligence service of the British army is said to have entered the service of the Royal Dutch-Shell group. A Colombian minister to the United States resigned his diplomatic post in 1921 and went to work for the Andian National Corporation, a Colombian affiliate of Standard Oil.³

Finally, the influence of those who desire diplomatic support for their private projects abroad can be exerted upon government officials indirectly through the press and public opinion. They can usually count upon the spontaneous support of chauvinistic and sensational journals in any campaign launched for vigorous assertion of "our" interests abroad and in painting a black picture of the iniquities of foreign nations. The usual by-products of this method of influence are antagonistic emotions which may persist, which tend to intensify international difficulties, and which easily attach themselves to other issues than those that provoked the original agitation. In a previous chapter the propaganda activities of the Mannesmanns and the press manipulations of Rhodes and his associates in connection with the Jameson

¹Feis, *op. cit.*, p. 159; E. Judet, *George Louis* (Paris, 1925), p. 248; Raymond Poincaré, *Au Service de la France* (Paris, 1926), I, 268.

²*Les documents politiques, diplomatiques, et financiers*, III (November, 1922), 250; IV (January, 1923), 25.

³Wilhelm Mautner, "Erdölkonflikte heute und morgen," *Europäische Gespräche*, VII (1929), 194-5.

War and the Private Investor

Raid were described. Other concrete illustrations of the same sort appear below.

The frequent revolutionary turmoil in Mexico and the long-continued controversy over rights of foreign property-owners under the Mexican reform constitution of 1917 led to considerable agitation in the United States by those who favored a "strong policy" towards the neighbor on the south. Prominent among these were the great petroleum companies, and also mine and land owners and commercial firms, whose profitable operations in Mexico were jeopardized by civil unrest and by the social policy of the Mexican government. These interests established a "National Association for the Protection of American Rights in Mexico" early in 1919 and provided it with a well-equipped headquarters on Fifth Avenue in New York City, presided over for \$20,000 a year by Mr. Charles H. Boynton, who some years before had been the general superintendent of the Associated Press office in Washington. The Association also had a Washington bureau, which carried on lobbying and had a prominent part in preparing and presenting testimony before Senator Fall's sub-committee of the Senate Committee on Foreign Relations when the investigation of Mexican affairs was in progress.¹

The Americans with property interests in Mexico and their propagandists did not, of course, confine themselves to open and avowed argument in behalf of their case. There seems to be plenty of evidence that uprisings were press-agented, evidences of disorder exaggerated, and systematic attempts made to build up a picture of Mexico in the American mind as a hotbed of radicalism and as more unsafe for life and property than it really was. This was partly the natural sensationalism of news reporting, but one observer friendly to the Latin-American countries wrote in protest: "I am firmly convinced that if the Associated Press and some of the leading American papers took the trouble to examine the personal records and the business connections of some of their representatives in Latin America, and particularly in Mexico and Nicaragua, they would discharge those men instantly."² William Randolph Hearst, who owned three to four million dollars' worth of property in Mexico besides his chain of sensational, chauvinistic newspapers in the United States, outdid all other propagandists. In November and December, 1927, his papers blazoned across their front pages

¹L. J. de Bekker, *op. cit.*, pp. 6, 287, 291, and testimony before the Fall committee there cited.

²Rafael de Nogales, *op. cit.*, p. 45.

Private Investments and Diplomacy

day after day a series of documents tending to show that the Mexican treasury, on orders from President Calles, had paid out money destined for United States Senators La Follette, Borah, Norris, and Heflin and for men like Oswald Garrison Villard of the *Nation* and others who had shown sympathy towards the Mexican revolution. In addition, there were hints of connections with Japan, with the Bolsheviks, and with anti-United States parties in Nicaragua. The documents, reproduced in facsimile and translated with explanatory notes, were supposed to have been stolen for Hearst's agents from government offices in Mexico City, but a Senate investigating committee soon established that they were crude and obvious forgeries. "Anyone who would pass a consideration for the receipt of these documents [for which Hearst testified he paid some thousands of dollars] must have been in a very receptive mood," was the judgment of a Treasury Department expert.¹ Mr. Hearst's initiative may be explained on the basis of his patriotic impulses, or his large property interests in Mexico, or his taste for sensational newspaper "stunts." The explanations are not at all mutually incompatible, however. Yellow and patriotic journalism has always been an eager assistant to the propaganda of private interests striving for intervention abroad.

An amusing instance has come to light which shows that wealthy foreign investors do not always get the propaganda they pay for. C. W. Barron, publisher of the *Wall Street Journal*, records that the oil magnate, E. L. Doheny, told him in 1921:

"Dr. Dillon went to Mexico under contract with me at \$20,000 a year for five years and he was to study the Mexican constitution and write articles which he was to send me. If he agreed with me, I believed the articles might be useful in informing the public. He became infatuated with Obregon and wrote those fulsome articles in the New York *Evening Post* which were really damaging to my interests. At the end of two years I told him what I thought of his actions for a man on my payroll and I stopped his payment. . . . We finally parted."²

In the period before the war André Tardieu was the influential editor of the "Bulletin de l'Etranger" in *Le Temps*—a paper whose

¹*Alleged Payments by the Mexican Government to United States Senators*, Hearings before a Special Committee . . . United States Senate, 70th Congress, 1st Session (Washington, 1927), pp. 9, 13-19, 36, 327.

²*They Told Barron. Conversations and Revelations of an American Pepys in Wall Street*. The Notes of the Late Clarence W. Barron, edited and arranged by Arthur Pound and Samuel Taylor Moore (New York, 1930), p. 153.

War and the Private Investor

intimations on French foreign policy were regarded as at least semi-official. He figured in two "affairs" which illustrate how the press can be used to exert political pressure on behalf of, if not actual foreign investment interests, then promotion schemes connected with foreign investment projects. The first centered around a proposed railway from Homs, in Syria, to Bagdad. A young Turk, Youssouf Said Bey, applied for the concession from the Turkish government, and a levantine promoter named Bernard Maimon set out to raise capital in France and England. In Paris he allied himself with Tardieu, in London with Arthur J. Barry, who had been associated with engineering enterprises in China and elsewhere. These three enlisted the support of M. Pichon, the French Minister of Foreign Affairs, for their project, and in London there were conversations at the Foreign Office regarding the international aspects of the affair and what capitalists should be taken in. Tardieu also journeyed to Berlin to negotiate with the German promoters of the Bagdad Railway line. His plan was to have the French government secure the Homs-Bagdad concession from Turkey in return for permission to float a government loan in the Paris market which the finance minister, Djavid Bey, was then trying to arrange.¹ After various difficulties had been met, and some of them overcome, and tentative arrangements had been made for the distribution of shares and supply of materials (Tardieu was to be president of the board of directors), the project met the determined opposition of the French ambassador at Constantinople, M. Bompard. He pointed out that the Young Turks did not desire to construct a Homs-Bagdad line, that the traffic would be small, necessitating a governmental guarantee which Turkey was not in a position to give, and that in any case the Turks did not care to subsidize a line in competition with the German Bagdad line which they had already guaranteed. The Ambassador did not care to compromise French influence by pressing the concession upon

¹The German diplomatic representative in Paris, von Lancken, reported this to his government in a somewhat sardonic account of a conversation with Tardieu which began "M. André Tardieu, the well-known editorial writer of the *Temps*, is no longer satisfied with his outstanding journalistic position. He wants, as has been repeatedly mentioned in this correspondence, to play an active and decisive rôle in foreign politics." In the Homs-Bagdad matter, Tardieu had suggested a sort of compromise between the German Bagdad Railway plans and the French plans. "In my opinion he is not guided only by motives of pure idealism. He wants above all to gratify the ambition so fully justified by his talents. . . . Therefore, M. Tardieu's assurance seems to me worthy of belief that in this mission [he was going to Berlin] he would act quite apart from his capacity as journalist and would come only as agent of the French financial group (he mentioned especially the names: Vitali, Neufville, Bardac)." (*Die Grosse Politik*, No. 10,004, July 5, 1910.)

Private Investments and Diplomacy

the Turkish government. Thereafter *Le Temps* attacked the Young Turks and the proposed Turkish loan, and began to hint that French interests in Constantinople were inadequately represented. On January 8, 1911, it said that "local habits of inertia and scepticism" weighed heavily on French policy there, which had broken "against the obstruction of those very persons who ought to have been the agents of its execution."¹

The other episode likewise reached its climax in 1910-11. It centered around the N'Goko Sangha Company, which held a concession for exploiting a large tract of the French Congo. The Company, according to the report of a committee of the Chamber of Deputies which investigated its affairs,² did little to cultivate its acres in Africa, but spent a good deal of money and effort and ingenuity trying to collect an indemnity from the French government for infringements on its territory by German and English traders and for loss of territory through rectification of the frontier. Its claims

¹The above account is based upon correspondence exchanged among Tardieu, Maimon, Barry, and others, published by *Le Rappel* from April 23 to May 3, 1911, and collected in the brochure *La Diplomatie secrète sous la troisième République, 1910-1911*, introduction by Charles Paux-Séailles [Courrier Européen, 1912]. The essential facts were summarized by Félicien Challaye in *La Revue du Mois*, June, 1911, pp. 749-753, and republished for propaganda purposes with additional matter and attacks on Tardieu in 1929 under the title, *Un aspirant dictateur, André Tardieu* (Editions de "La Révolution Proletarienne").

The correspondence so published seems to be authentic. There were even more sensational aspects of the Homs-Bagdad affair, recounted by Challaye. Bernard Maimon was arrested on March 31, 1911, on complaint of M. Pichon, charged with having abstracted a considerable number of documents from the Ministry of Foreign Affairs through an employee and having delivered them to newspapers. Challaye says that these stolen documents formed the basis of campaigns carried on in *Le Temps* and other papers. Maimon was sentenced to two years in prison, and Challaye quotes the judgment of the court as follows (my translation):

"... Maimon told Rouet [the accomplice in the Ministry of Foreign Affairs, sentenced to three years] of efforts which he had been making for several years to obtain the concession for a railway in the Orient to the profit of a group of French and foreign personages; ... Rouet, to whom a share was promised (apparently it was to be 30,000 francs), agreed to enter into the views of Maimon and to assist the action of his group under certain circumstances by furnishing him with indications and information which his position at the Ministry of Foreign Affairs permitted him to gather and which Maimon would utilize, *le cas échéant*, either directly, or to try to exert pressure by the publication of articles or news." The culprits acted, said the court, "not with the premeditated intention of betraying French interests, but for the profit of an industrial and financial enterprise which does not appear illicit in itself. . . ."

²Found in the *Journal Officiel*, Chambre, Docs. Parls., No. 376, S. E. 1910, pp. 369 ff. The report was written by Deputy Maurice Viollette for the committee on local budgets of the colonies and was subsequently published separately: Maurice Viollette, *La N'Goko Sangha* (Paris, 1914). References are to this volume.

War and the Private Investor

amounted in 1910 to some 12,675,000 francs.¹ The head of the N'Goko Sangha Company was M. Mestayer, and one of his principal aids in seeking the indemnity was André Tardieu of *Le Temps*, who represented the Company in arbitration proceedings in 1910, and conducted its diplomatic and journalistic campaign. Mestayer one day said to the Minister of Colonies, "You do not wish to give us the legitimate satisfaction to which we have a right. Well, we will obtain it without you or in spite of you, for I have behind me the whole press and two hundred members of parliament."²

How did press support aid the Company? The parliamentary report cites several instances. In 1905 an unfortunate boundary incident due to ill-defined frontiers, lack of communication, and the rivalries of German merchants and French concessionaires occurred at Missum-Missum on the Congo-Cameroon border. At the risk of increasing the dangerous political tension, "several newspapers, in order to please the Company, which needed this polemic for its indemnity campaign, considerably aggravated the incident, serious enough in any case, and presented it as a deliberate violation of the frontier by the Germans."³ Part of the Company's tactics was to urge that in the interest of Franco-German rapprochement the claims which it had against Germans for violating the frontier and gathering N'Goko Sangha rubber should be paid by the French government. It may have been significant, then, that on March 9, 1908, *Le Temps* published the following false information from its Berlin correspondent, M. Roels:

"In the matter of the delimitation of the Cameroon and the French Congo, I learn from a German source that the French and German governments, in order to facilitate the negotiations, have agreed to renounce claims for reciprocal indemnities on account of violations of the frontier and other damages, each party assuming the claims of its own nationals."

It was in regard to this and similar dispatches appearing in other papers that M. Jules Cambon, French ambassador at Berlin, wrote to warn the foreign minister in Paris. One correspondent, he said, when questioned about the allegations of his paper, "did not conceal that one should not give great weight to the criticisms them-

¹The committee held that these were unjustified either in equity or law, citing particularly articles in the concession agreement under which the Company obligated itself not to seek indemnities for frontier changes or for lack of security of the country. (Violette, *op. cit.*, pp. 171-3.)

²*Ibid.*, p. 78.

³A boundary commission subsequently decided that Missum-Missum was in German territory. *Ibid.*, pp. 66, 81.

Private Investments and Diplomacy

selves, but should see in them simply a means employed by the N'Goko Sangha Company to increase its concession, both in duration and extent."¹

Now M. Tardieu approached Baron von Lancken of the German embassy in Paris with the suggestion that an end be put to Congo-Cameroon difficulties by promoting a consortium of French and German colonial companies.² This was acceptable to the Germans, who would be glad to have French capital to combine with their engineering and initiative, and negotiations went forward with a German colonialist and member of the Reichstag, Semler. The N'Goko Sangha was represented in Berlin for this purpose by M. Roels, correspondent of *Le Temps*. The Company now insisted that it could not enter the consortium unless its indemnity were paid, and the French cabinet showed signs of yielding to its demands. In April, 1910, an indemnity of 2,393,000 francs seems to have been agreed upon with the ministry then in power. But men like Félicien Challaye of the League for the Defense of Natives, who had helped to expose the horrible results of the Congo concession system that were then startling Europe, and others like Albert Thomas in the Chamber of Deputies, waged an ardent campaign against what they regarded as a "job" of the worst description.³ They succeeded in bringing about the parliamentary report mentioned earlier and effectively blocked the indemnity.

The proposals for Franco-German coöperation in the Congo had meanwhile become an item of high diplomacy in relation to the dangerous Moroccan controversy, and when the French now went back on the consortium scheme the German irritation over this and other matters approached a climax. The reaction on the Moroccan affair was most harmful.⁴ M. Tardieu could urge with reason in *Le Temps*⁵ that the check of the consortium idea complicated the problems of diplomacy. Opponents of the N'Goko Sangha answered that the international involvement had been skillfully manufactured as a pretext for collecting the indemnity. They also claimed

¹*Ibid.*, p. 84.

²Oscar Freiherr von der Lancken Wakenitz, *Meine dreissig Dienstjahre, 1888-1918* (Berlin, 1931), pp. 91-2. Von Lancken says that Tardieu was a relative of Meystayer, head of N'Goko Sangha, as well as an associate in this business.

³See the article and pamphlet by Félicien Challaye cited in connection with the Homs-Bagdad affair, also E. D. Morel, *Ten Years of Secret Diplomacy* (London, 1915), pp. 118-9.

⁴See the testimony of Joseph Caillaux and his summary of the whole episode in *Agadir, Ma Politique Extérieure* (Paris, 1919), pp. 55-71.

⁵And in his book, *Le Mystère d'Agadir* (Paris, 1912), which in Part II gives his version of the Congo consortium with much interesting detail.

War and the Private Investor

that the editorial guns of *Le Temps* were again in the service of finance when on January 31, 1911, six days after the government had refused to pay the indemnity, a very vigorous criticism of Foreign Minister Pichon's policy appeared. M. Pichon himself declared in the Senate that "a week ago the author of this article found the foreign policy perfect. . . . Then, suddenly, he declared that nothing was going well any longer. . . . I do not know, I do not want to know, what has been the cause of such a rapid evolution."¹

This discussion of the technique by which investors seek to influence their governments through the press may well be concluded with an excerpt from the brief but luminous analysis supplied by J. A. Hobson in *The Psychology of Jingoism*² of the way in which English sentiment acquired its antagonism against the Boers before the South African War. The period here in question is the space of a few years which intervened between the Jameson Raid and the war itself. The impetus for the propaganda came, of course, not only from financiers but also from those to whom imperial expansion was a good for its own sake and from local quarrels (racial and other) in South Africa.

"The information from South Africa which impressed upon the public mind a conviction of the justice and necessity of war, and which aroused and sustained the passion of Jingoism, did not flow freely into the country through many diverse, unconnected channels, as is commonly supposed. The extraordinary agreement of the metropolitan and provincial press, Unionist and Liberal, religious and secular, in its presentation of leading facts, in its diagnosis of the situation and its pressure of a drastic policy, is doubtless responsible for the unwavering confidence which the great majority of the nation placed in the policy of the Government at the outset of the war. . . . It is little wonder that people unacquainted with the structure of the press, and with methods of educating public opinion, should have been imposed upon by this concurrence of testimony. If the papers which they read, and the speakers to whom they listened, had drawn their facts and their opinions from a variety of independent sources, the authority they exercised would have been legitimate. But what was the actual case? . . . The great

¹Viollette, *op. cit.*, p. 80.

²London: Richards Press, 1901, pp. 107 ff.

Private Investments and Diplomacy

majority of provincial newspapers, and most of the weeklies, metropolitan or provincial, religious as well as political, derive their information regarding foreign and colonial affairs entirely from the chief London 'dailies,' supplemented, in the case of the more important organs, by 'cables' from the same sources which supply the London 'dailies.' . . . The otherwise miraculous agreement of the British press is, thus, first resolved into the agreement of a few journals, chiefly in London, and of two or three press agencies. We have next to ask from what sources do these latter get their information? On this point the case of the South African War is peculiarly instructive. All the leading London papers received their South African intelligence from correspondents who were members of the staff of newspapers in Capetown and Johannesburg, supplemented in two instances last year by information from special travelling correspondents, who, in their turn, derived most of that information from newspaper offices in South Africa. In particular, the two London newspapers which exercised most influence upon the mind of the educated classes in this country, the *Times* and the *Daily News*, were instructed, in the former case, by the newly-appointed editor of the *Johannesburg Star*, in the latter case by the editor of the *Cape Times*. The two chief cable companies also drew most of the Capetown intelligence from the *Cape Times* and the *Argus* Company. . . .

"The press unanimity in Great Britain is thus traced to certain newspaper offices in Capetown and Johannesburg. . . . But they were neither independent nor reliable; they are members of a bought and kept press. The *Cape Argus*, bought some years ago by Messrs. Rhodes, Barnato, and Eckstein, is now the nucleus of a Company, owning some half dozen papers in South Africa, and among them the *Star* of Johannesburg, whose editor instructed the readers of the London *Times* in the necessity of war¹. . . . The newspapers at Kimberley and at Buluwayo are in the same hands, and the *Cape Times* is financially controlled by Mr. Rutherford Harris, a colleague of Mr. Rhodes in his several financial ventures. The

¹When Rhodes went into Cape politics in 1881, says a biographer, he bought a share in the *Cape Argus* in order to have an organ to print his speeches and other things he might give it, though he assured the editor he would not interfere with its policies. In the time of the Chartered Company he also "had a keen eye to the value of the press and exercised considerable control over a group of South African newspapers: not that he dictated their policy, but he was at any rate sure of their general support. His general attitude on this question is well illustrated by his remark to Garrett, the editor of the *Cape Times*: 'I have never inspired an article in your paper, or requested that a given line should be taken, but you might at least be careful about facts.'" (Williams, *op. cit.*, pp. 58, 192.) Being "careful" about "facts" may, of course, be the most effective means of propaganda.

War and the Private Investor

principal organs of public opinion at all the political pivots in South Africa are thus owned by the little group of men who also own or control the diamond mines at Kimberley, the gold fields of the Rand, and the government and resources of Rhodesia.

“Since this control of the press by business men for business purposes lies at the very root of Jingoism, it is desirable to make this charge quite clear. . . . The personal instruments of their educational policy are the editors of their papers. It is by no means necessary to assume that these editors are corrupt or dishonest. . . . When these editors were appointed, it was ascertained that they favoured the policy of the proprietors, and that they would be likely to work vigorously along the desired lines; if they departed from these lines they would be dismissed from their post and other editors appointed who would write what was wanted. . . . The control of the London press by the Rhodesians is thus perfectly intelligible. It is right to add that for purposes of popular education they were particularly favoured by the efforts of the *Daily Mail*, which enlarged the bounds of London journalism in the provinces, spreading its yellow light in regions hitherto unapproached. Although the proprietors of the *Daily Mail* have been shareholders in the Chartered Company, and that paper received its South African intelligence from the same sources as the rest of the great London newspapers, such influences are, of course, not essential to explain the Jingoism of the cheap sensational press in any country. In order to get an effective mastery of the press, it is only necessary for the operators to purchase or control a certain number of influential papers, which shall be used to mark a path of sensational policy and set the pace; the self-interest of yellow journalism will do the rest.”

D. GOVERNMENTS INFLUENCE INVESTORS

CHAPTER 9

Type Cases: Albania, the Saar

THERE are few better examples of investment penetration for strategic political reasons than the penetration of Albania by Italy during the last decade.¹ Economically, Albania is unattractive. Five centuries of Turkish suzerainty terminated in 1912 with Albanian social organization still based on the tribe or clan, and blood feuds have only lately ceased to be common. It has scanty resources, of which agriculture must be reckoned the most promising,² and until recently it has remained isolated from the main stream of modern economic development. Yet this mountainous, poverty-stricken little country with its population of one million has become a bone of contention in international politics, and a glance at the map will show why. From the Bay of Valona near the southern extremity of Albania's Adriatic coast, it is only forty-five miles across the narrow Straits of Otranto to the heel of the Italian boot. Any power which controls the southern portion of Albania has potential control over the entrance to the Adriatic Sea. On its landward side, the boundaries of Albania are coterminous with those of Jugoslavia

¹See my article, "Italy's Financial Stake in Albania," *Foreign Policy Association, Foreign Policy Reports*, VIII, No. 7 (June 8, 1932), 80-86, portions of which are used here with permission.

²Between 1921 and 1925 there were international flurries occasioned by the rivalry of a number of companies over Albanian oil, but the results of prospecting for this or for other mineral resources have been disappointing.

War and the Private Investor

and Greece. Italian spokesmen argue that Italy must control Albania in order to prevent any other power from gaining a foothold which might weaken the defense of Italy's long, exposed coastline. Yugoslavia, for its part, has regarded the influence of Italy in Albania as a menace, especially when it has seen Italian engineers building roads and bridges capable of bringing troops to the Yugoslavian frontiers.

Early in the World War, while still a neutral, Italy occupied Valona. In the secret Pact of London (1915) one of the promises which brought Italy into the conflict on the side of the Allies was a pledge that it would receive full sovereignty over Valona, the island of Saseno and sufficient surrounding territory to insure the defense of these points. It was further provided that in case portions of Albania should be given to Montenegro, Serbia, and Greece, the coast from the southern boundary of the Italian territory of Valona to Cape Stylos would be neutralized; and that Italy would be entrusted with the conduct of the foreign relations of any autonomous Albanian state which might be formed.¹ At the close of hostilities, however, an Albanian nationalist movement asserted itself, and in the Paris Peace Conference the Wilsonian principle of self-determination enabled it to defeat plans for the partitioning of the country. In December, 1920, Albania was admitted to the League of Nations.

At first Italy had attempted to retain at least Valona, but fierce attacks on the garrison by the Albanians, coupled with violent agitation by socialists in Italy, led to its evacuation in September, 1920. On August 2nd Italy signed an agreement with the provisional government of Albania which marked a turning point in Italian policy. Since that time Italy has not sought Albanian territory, but has striven to preserve the integrity of Albania and to assist that country in becoming a consolidated state under Italian tutelage.² The Italian influence exercised under the new policy was recognized by the Allied Conference of Ambassadors in a

¹*British and Foreign State Papers*, 112 (1919), 975.

²Joseph Swire, *Albania; the Rise of a Kingdom* (London, 1929), pp. 317-323.

Private Investments and Diplomacy

declaration of November 9, 1921. This declaration provided that should Albania's integrity be threatened, the matter would be brought before the Council of the League, where the representatives of the powers signing the declaration—Great Britain, France, Italy, and Japan—would recommend that any necessary measures of intervention be entrusted to Italy since “any modification in the frontiers of Albania constitutes a danger for the strategic safety of Italy.”¹ On November 27, 1926, Italy and Albania signed the Pact of Tirana, in which the two governments agreed to collaborate in maintaining the *status quo* of Albania, and this was followed a year later (November 22, 1927) by a defensive alliance which was to run for twenty years and, if not denounced, was to be automatically renewed for another twenty years.² It is the economic implementation of Italian policy in Albania which interests us here, especially the methods by which Italian capital has been directed into this strategically important but economically uninviting land. First, however, it is instructive to notice Albania's vain attempts to secure neutral capital through the League of Nations and thus to avoid dependence on any one power.

After the war, Albania was confronted with the necessity of establishing its independence, installing a system of administration, and solving pressing economic problems. Indeed, the very existence of the Albanian state—its internal cohesion and its ability to maintain its territorial integrity and independence—was conditioned on economic development. If the central government was not to be disrupted better means of communication had to be installed. Roads, bridges, and ports were needed to overcome the feudal disunity of the country. Public health services, schools, police and military protection had to be provided. All these activities called for large investments of capital, but Albania did not have capital at its disposal. The country was desperately in need of foreign financial support, and it also needed

¹*League of Nations Treaty Series*, XII, 381 ff.

²*Ibid.*, LXIV, 341 ff.

War and the Private Investor

effective guarantees of its frontiers. For these two forms of assistance, Albania looked first to the League of Nations.

After the Conference of Ambassadors had finally reached its decision of November 9, 1921, which confirmed Albania's 1913 frontiers, a Committee of Inquiry appointed by the League proceeded to Albania to observe conditions and adjust border difficulties. In their general report¹ the Commissioners emphasized that "a free and independent Albania is an essential condition of tranquillity and peace in the Balkans," that the constant risk of internal disturbances and foreign complications could only be obviated when Albania had attained a higher degree of political stability and economic development, and that this in turn depended upon a long list of improvements enumerated in the report. "Albania," said the Committee, "will need not only competent advisers, but also foreign capital." The requisite advice and economic support should be disinterested; it "should not be organized by countries having direct interests in Albania, but by an international body." Therefore, "the League of Nations, which enjoys an indisputable prestige in Albania, would appear to be the organ best fitted to give this support."

In compliance with the repeated requests of the Albanian government and in accordance with the recommendations of the Committee of Inquiry, the League Council decided that one member of the Committee, Professor Sederholm, should remain in Albania pending the arrival of a financial adviser.² Meanwhile, in July, 1922, the League sent Professor Calmès of Luxemburg to study the economic and financial situation of Albania. His report, presented in September, outlined a program of development. A foreign loan of about \$22,000,000, Professor Calmès said, would be of great help to Albania and would contribute to political stability in the Balkans; due to the existing situation in Europe, however,

¹League of Nations, *Official Journal*, June, 1922, pp. 572-82.

²*Ibid.*, p. 535.

Private Investments and Diplomacy

he believed that Albania would probably find it useless to look for the support of foreign capital. Credit, he further admonished the Albanians, meant confidence, and there is no confidence without security. External security would be guaranteed by the League of Nations, but "security within depends solely on the political wisdom of the Albanians themselves."¹

But the greatest political wisdom cannot maintain internal security of the type demanded by investors of capital in a country devoid of modern means of communication and of the most elementary public services. These themselves cannot be had without a certain amount of capital investment. In other words, before Albania could attract foreign private capital it must have security, but before it could achieve security it needed capital. "Without security, no money; without money, no security"—thus did Professor Sederholm describe the position.² Short of a slow, difficult period of development, punctuated by political crises which would inevitably rupture the precarious peace of the Balkans, there was only one way out of this vicious circle: consistent economic support from outside. It is hardly open to question that the financing of Albania through the League of Nations, had that been possible, would have been a worthwhile investment in Balkan peace. The Albanian government was prepared to place itself in the hands of the League for the sake of the funds and the technical assistance it so desperately needed. The League, however, did not undertake this task. Its failure to act may be attributed to the unsettled financial state of Europe, which made the flotation of a loan extremely difficult; lack of financial experience, since acquired as a result of loans granted under League auspices to Austria, Hungary, Greece, Bulgaria, Estonia, and Danzig; and the

¹Albert Calmès, "The Economic and Financial Situation of Albania," *Annex to the Report presented to the Council by the Financial Committee of the Provisional Economic and Financial Committee on its Eighth Session* (Geneva, September, 1922). Cf. also League of Nations, *Official Journal*, January, 1923, pp. 113-17.

²Swire, *op. cit.*, p. 392.

War and the Private Investor

political jealousies of the powers with respect to Albania.¹

The League did accede to Albania's request for the nomination of a financial adviser, and, after a year of delay, appointed Mr. J. D. Hunger of Holland to the post. The name of an Englishman originally proposed by the Financial Committee of the League and acceptable to the Albanians had to be rejected because of the jealousies of the powers, especially since oil concessions were thought to be at stake.² Mr. Hunger began his work in June, 1923, and proposed drastic measures of economy, taxation and reorganization calculated to balance the budget. The Albanian government, however, showed little disposition to act on his advice. Mr. Hunger, like other experts before him, recognized the immediate need of Albania for a bank of issue and attempted to mobilize enough foreign capital for its creation. Draft statutes for an Albanian national bank were drawn up with the assistance of the Financial Committee of the League of Nations at its September session in 1923. The plan provided for an internationally subscribed capital of one million dollars.³ As a result of the unsettled situation in southeastern Europe, capital was pledged but slowly, and the project failed to materialize.⁴ According to an Italian source, the Financial Committee of the League, having invited member states to participate, received favorable responses only from Italy, Belgium, and Switzerland. The committee thereupon decided that it would be best to leave the initiative exclusively in the hands of the Italian group.⁵

"Had that organization (the League) acted with less trepidation and caution, and with more practical activity, Albania would have been not a danger point, but a pillar of security and stability in the Balkan peninsula." (Swire, *op. cit.*, p. 438.)

²*Ibid.*, pp. 411-12, 424; League of Nations, *Official Journal*, June, 1922, pp. 523, 535; November, 1922, p. 1209; March, 1923, pp. 397-9; June, 1923, pp. 560, 638; *Records of the Fourth Assembly*, 1923, plenary sessions, pp. 245, 337.

³League of Nations, *Official Journal*, Report of Mr. Hunger to the League Council, January, 1924, pp. 162-68.

⁴*Ibid.*, and *Official Journal*, May, 1924, pp. 762-63.

⁵Avv. Adolfo Gulinelli, "L'Azione italiana in Albania," *Revista di Politica Economica*, 1927, Nos. 8-9. Cf. also speech of Signor Mario Alberti on March 25, 1928. (*Annual Report of the Banca Nazionale d'Albania for 1927*, p. 18.)

Private Investments and Diplomacy

Meanwhile, Mr. Hunger's proposed internal reforms were making no progress, political unrest and famine were rife in Albania, and the government's financial outlook grew steadily worse. On March 1, 1924, the Albanian government denounced the contract with its financial adviser, alleging that it took this step solely for reasons of economy, since its modest budget was unduly burdened by his high salary.¹ The government of Fan Noli, which came into power shortly after, informed the League that it regretted the manner in which Mr. Hunger's contract had been cancelled by the preceding government, but that due to the economies which it was forced to make it would not be in a position to reappoint him. The new government, however, actually adopted many of Mr. Hunger's recommendations, and succeeded, at least nominally, in balancing the budget.²

In September, 1924, Fan Noli again took occasion to declare at Geneva that the League might do much to promote peace in the Balkans by granting a loan to Albania, but caustically added that his country had little to hope for from the League—"only words, words, words, full of sound and fury, signifying nothing."³ A month later Ahmed Zogu was back in power, and this young *Realpolitiker*, seeking to lay a foundation for the economic development and internal stability of his country—and, incidentally, for the consolidation of his own rule—turned to Italy for the necessary resources. He seemed willing, for the time being at least, to pay the inevitable price of financial and political dependence. After 1924 the financial problems of Albania were discussed not in Geneva, but in Rome.

As Professor Sederholm pointed out in his final report,⁴ other Balkan states at the time they achieved independence "generally found some Great Power able and willing to be-

¹For the protest of the Netherlands government against Mr. Hunger's dismissal, cf. League of Nations, *Official Journal*, July, 1924, p. 1018. (Letter from the Netherlands Minister at Berne to the Secretary-General of the League.)

²*Ibid.*, October, 1924, p. 1928; Swire, *op. cit.*, p. 444.

³League of Nations, *Records of the Fifth Assembly*, 1924, plenary sessions, p. 101.

⁴League of Nations, *Official Journal*, May, 1923, pp. 504-10.

War and the Private Investor

friend them and to afford them financial assistance." Similarly Ahmed Zogu, obtaining no help from the League, entered into negotiations with the Fascist government and on March 15, 1925, concluded with an Italian financial group an agreement which had far-reaching consequences.

The convention of 1925,¹ which was to run for 50 years, was concluded by a representative of the Albanian state and "His Excellency, Mario Alberti, as representative of the financial group recommended by the Italian government."² This group undertook to establish the National Bank of Albania—*Banca Nazionale d'Albania*, sometimes referred to as the *Bancalba*—with a nominal capital of 12,500,000 gold francs (\$2,500,000), divided into 495,000 ordinary shares at a face value of 25 francs each, and 100,000 founders' shares at a face value of 1.25 francs each. Albanian citizens were to have a right to participate to the extent of 49 per cent of the share capital. The Bank was to have its administrative seat in the capital of Albania; its operations, however, have been actually directed from Rome. The Bank was to have the exclusive privilege of issuing paper currency, and was to supervise the coinage of metallic money, the profits from which were to be divided equally between the state and the Bank. It was to receive government deposits and to act as treasury agent, and was to have the right to negotiate government and municipal loans. Provision was made for Albanian representation in the management, although the Italians were always to have the deciding vote. The Albanian state was to receive 10 per cent of the net annual profits. The Bank concession was exclusive and irrevocable.

Furthermore, within a month after the initiation of its own activities, the Bank undertook to form a company to be known as *La Società per lo Sviluppo Economico dell' Al-*

¹Albanian and Italian texts in the Albanian *Official Gazette* (Republika Shquiptare, *Fletorja Zyrtare*), Vol. IV, No. 40, 1925, pp. 3-8.

²Signor Alberti of the *Credito Italiano* is a leading Italian banker, has represented his country in numerous international financial negotiations, and was president of the Commission of Control set up by the League of Nations in Austria. He holds the honorary rank of Minister Plenipotentiary.

Private Investments and Diplomacy

bania (Company for the Economic Development of Albania, commonly referred to as the S.V.E.A.). The S.V.E.A.'s capital of 15,000,000 lire (about \$750,000) was to be divided into 150,000 ordinary shares, of which 10,000 were to be assigned gratuitously to the Albanian government. This new company undertook to procure a loan of \$10,000,000 for Albania, to be used exclusively for public works—roads, drainage of swamps, agricultural development, and construction of ports. The repayment of capital and interest was to be guaranteed by a lien on the Albanian customs duties and on the state monopolies of salt, cigarettes and matches. The S.V.E.A., or the affiliated companies which it might organize, was given the right to submit bids for the execution of public works and was to be accorded preference in the awarding of contracts.

Under the terms of the 1925 convention, the Banca Nazionale d'Albania¹ was formally constituted in Rome on September 2, 1925, in the presence of the Italian and Albanian Ministers of Finance, the Yugoslav Minister in Rome, and Signor Alberti of the Italian financial group.² It has been reported that Great Britain and Jugoslavia protested against the exclusively Italo-Albanian character of the original plans and thereby obtained a right of participation for the nationals of other interested states.³ It may also be suggested, however, that Italy, compelled to borrow abroad for its own financial needs, was not averse to admitting foreign capital to the enterprise so long as Italian citizens retained control. Practically all the shares set aside for the Albanian interests participating in the Bank—49 per cent of the total capital—were actually bought for Italian account.⁴ The voting power represented in the shareholders' meeting of March 20, 1930, was distributed as follows: Italian banks held 225,000 shares

¹This section is based largely on the annual reports of the Bank. The reports used include those for 1926 (in Italian), 1927 (in English), 1928 (in English), and 1929 (in Italian).

²Swire, *op. cit.*, p. 46.

³*Vossische Zeitung*, July 5, 1925.

⁴*Frankfurter Zeitung*, May 5, 1926.

War and the Private Investor

out of a total of 579,216;¹ Yugoslav banks, 50,000; other foreign banks, 75,000; while the balance was held by private shareholders² and officers of the Bank.

The Bank established a gold-standard currency in Albania, and while Albanians were at first reluctant to accept paper money, the circulation of banknotes gradually increased. The notes were printed in Albanian and Italian, and the new gold, silver, nickel and bronze coins minted by the Bank resembled those of Italy in appearance. Commercial undertakings were stimulated by the establishment of general warehouses under the direction of a company founded by the Bank. Agricultural development was encouraged by the provision of credits. The spread of the banking customs of more developed countries, coupled with legislative reforms which the Bank sponsored, also tended to promote Albanian economic development.³

The second part of the Convention of 1925 had provided for the creation by the Italian financial group of the development company known as the S.V.E.A. and for the flotation of a \$10,000,000 public works loan. The details of this loan were set forth in a further convention of May 29, 1925, and an executive accord of July 26, 1925, between the Albanian government and the S.V.E.A.⁴ The bonds, as finally issued in

¹A total of 595,000 ordinary and founders' shares were outstanding, but some of them were not represented at the meeting. The Credito Italiano holds the 100,000 founders' shares. (*Annual Report of the Banca Nazionale d'Albania for 1929*, pp. 8-10.)

²These shares were mostly from the original Albanian allotments. Owing to the failure of Albanians to take up their quota, these shares are largely in Italian hands. (*Near East Yearbook and Who's Who*, 1931-1932, p. 39.)

³Cf. *Report Presented to the International Chamber of Commerce*, Economic Group for Albania, at the Fourth Congress, Stockholm (1927), pp. 2-3; also *Economic Situation of Albania*, at the Fifth Congress, Amsterdam (1929).

⁴This section is based largely on the following annual reports and other documents published by the S.V.E.A.: S.V.E.A., *Relazione sul Bilancio al 31 Dicembre 1926*, presented at the meeting of the shareholders held on April 27, 1927; *Relazione sul Bilancio al 31 Dicembre 1927*, presented at the meeting of shareholders held on September 18, 1928; *Relazione sulle Opere Eseguite al 31 Dicembre 1929*, presented at the meeting of shareholders held on March 21, 1930; *l'erbale della Assemblée Generale degli Azionisti*, March 21, 1930.

The text of the convention of May 29, 1925, may be found in the July 31, 1925, issue of the *Albanian Official Gazette*, Vol. IV, No. 40, cited, and in the appendix

Private Investments and Diplomacy

November, 1925, carried a rate of interest of $7\frac{1}{2}$ per cent and were issued at 75. Charges were 4 per cent, which made the effective emission figure 71.

The effective interest cost to Albania would have been, thus, about $10\frac{1}{2}$ per cent—not at all high, considering the situation of the debtor and the extreme dearness of money in Italy itself. Moreover, acting on the advice of the Italian government, the Albanian government converted its credits into lire just before the revalorization of the lira, with the result that it found itself in possession of 65,000,000 gold francs, net, for which it was obligated to pay $7\frac{1}{2}$ per cent on a nominal debt of 70,500,000 gold francs. The interest cost to Albania, therefore, was not much over 8 per cent.¹ Even this Albania did not have to pay, for, thanks to the circumstance that the Italian government agreed to guarantee the service of the loan, the Italian Financial Group was able to grant one moratorium after another. Until the new loan agreement of 1931, the Italian government was paying the bondholders, while interest and sinking fund in arrears were accumulating to the charge of the Albanian government.

The S.V.E.A. often pointed in its annual reports to the favorable terms given Albania in this loan as proof of Italian friendship, and contrasted the lien on customs duties and taxes provided by its contract with the allegedly more stringent provisions—i.e., for financial control—of the League of Nations loans to Hungary, Greece and other countries.² It should be noted, however, that the League in granting loans has to take their financial soundness into consideration, while the Italian loans to Albania are political in nature and take little account of ordinary financial calculations. In any case, control exercised by Italian diplomats and Italian civil and military advisers is not unimportant, even if organized in a less formal manner than that imposed by the League.

to the 1926 report of the S.V.E.A., which also contains the executive accord of July 26, 1925.

¹Interview in the Ministry of Finance of the Albanian government, Tirana; Swire, *op. cit.*, p. 462.

²Cf. S.V.E.A. *Report for 1926*, pp. 44-45.

War and the Private Investor

There can be little doubt that the Italian capital represented in the Banca Nazionale d'Albania and the S.V.E.A. entered Albania not for economic reasons, but as an instrument of Italian diplomacy. These organizations, though private in form, have not regarded themselves as ordinary business enterprises. Speaking to a meeting of stockholders, the president of the S.V.E.A., Vincenzo Lojacono (himself a high official of the Italian Foreign Office), declared:

"Due to the special character of our company, springing from and living in the orbit of a happy and much vaster political conception of the relations between Italy and Albania, our attainments unfold themselves in a sphere so superior and so foreign to the internal results of a balance sheet that it is a legitimate wish on your part to prefer to hear what our activities have contributed to the development of the program of Italo-Albanian collaboration."¹

Still more convincing proof that Italian investments in Albania are not ordinary economic undertakings is provided by certain formal decrees of the Italian government, which, after having accorded large tax exemptions in favor of the loan to Albania,² ended by providing for a guarantee of the yearly payments from the Royal Treasury.³

Any remaining doubts regarding the political rather than economic purposes of Italian investments in Albania were removed by the loan agreement concluded at Tirana on June 24, 1931.⁴ In this agreement the Italian government abandoned all indirect methods and arranged to advance funds to Albania not through the mediation of bankers, but in its own name.

The terms of the 1931 agreement provided for a series of annual loans from Italy to Albania extending over a period of

¹S.V.E.A., *Relazione sulle Opere Eseguite al 31 Dicembre 1929*, presented to the assembly of stockholders on March 21, 1930, p. 5.

²Decree No. 631, dated April 3, 1926, published in the *Gazzetta Ufficiale* of Italy, No. 93, April 22, 1926, and quoted in the *S.V.E.A. Report for 1926*, p. 7.

³Decree No. 249, dated March 3, 1927, published in the *Gazzetta Ufficiale*, No. 55, March 8, 1927, and quoted in the *S.V.E.A. Report for 1926*, pp. 7-8.

⁴See Decree No. 1068, dated July 29, 1931.

Private Investments and Diplomacy

ten years and limited to a maximum of \$2,000,000 in any one year. The loans were to bear no interest, and the date and manner of repayment were to depend upon the financial situation of Albania. A commission composed of two Albanians and two Italians was to supervise the expenditure of the funds so received, devoting them mainly to public works, the development of national economy, and the improvement of education. Albania agreed to request the services of the following advisers (*organizzatori*) approved by the Italian government: one at the Ministry of Finance, two at the Ministry of Public Works, four at the Ministry of National Economy, and one for national education. Finally, Italy made it clear that the annual payments to Albania would depend on the "continuation of full and sincere technical and political collaboration between the two governments."

Thus, the influence of military and civil advisers, the lien on custom duties, salt, cigarette and match monopolies provided in the loan convention of 1925, the manifold activities of the Banca Nazionale d'Albania, and the S.V.E.A., as well as the provisions of the loan agreement of 1931, have given Italy a very real control not only over Albania's finances but over its whole national economy. It is sometimes taken for granted that the hidden hand of capitalist enterprise, or some less specific economic force—"population pressure," for example—is behind the foreign policy of every great power which extends its influence over a weaker country. Such an interpretation of Italian penetration in Albania would be erroneous. Albania does not constitute an attractive sphere for economic expansion. It is probable that "in many parts of the Italian colonial empire colonizing activities could be carried out with a smaller outlay of capital and greater chance of success than in Albania."¹ Italy is not "exploiting" poverty-stricken Albania in an economic sense. Indeed, it would be more in accord with the economic facts to say that Albania is exploiting Italy, for Albania has received Italian

¹Dr. Gerhard Schacher, *Der Balkan und Seine Wirtschaftlichen Kräfte* (Stuttgart, 1930), p. 131.

War and the Private Investor

capital on which no responsible banker would expect an economic profit. What Italy has done is to assure itself of the political and military control of Albania by judicious loans and investments instead of by resort to armed force. Italian policy in Albania is based on the recognition that it is cheaper to subsidize and strengthen an independent, but "allied" Albania than to conquer, garrison and administer the country in the face of inevitable hostility on the part of a warlike people.¹

The problem of Albania after the World War presented a dilemma: either financial support from an interested power, such as other Balkan states had received at an earlier date, or a protracted period of instability due to lack of capital for economic and political development. The dilemma might have been resolved had an international organization interested in the maintenance of peace been able to finance Albania through a rather long period of construction, but it would have been necessary for this organization to advance funds with slight prospect of repayment on economically profitable terms. Italy found it expedient to provide Albania with capital on financially unprofitable terms for the sake of political advantages which it deemed important to its national security—a course which no international organization is yet in a position to follow for the sake of promoting general peace.

PENETRATION IN THE SAAR, 1919-20²

The Saar Territory, bounded on the north and east by Germany, on the south and west by the (now) French province of Lorraine, was formed by the Treaty of Versailles from part of Prussia and a bit of the Bavarian Palatinate. The

¹Italian spokesmen often draw an analogy between Italy's policy in Albania and the policy of the United States in certain Caribbean countries. Comparisons have also been made with the British policy in Portugal.

²Condensed, with permission of the editors, from my article, "Private Investments and International Politics in the Saar, 1919-20: A Study of Politico-Economic 'Penetration' in a Post-War Plebiscite Area," *Journal of Political Economy*, 41 (October, 1933), 577-601.

Private Investments and Diplomacy

economic importance of the Saar basin depends upon a coal field lying under it which is third in importance in Continental Europe, ranking second only to those of the Ruhr and of Silesia. The greater part of the coal output from these mines, which were, before the war, mostly state mines of Prussia and of Bavaria, is used in the area itself in great metallurgical, glass, and pottery industries. Owing to the exhaustion of the Saar iron mines, iron ore has, since the beginning of the nineteenth century, been largely imported from Lorraine. The inhabitants of the Saar number about 800,000, three-quarters of whom are workers in the mines and industries of the region or belong to families of these workers. The mass of the population, certainly more than 90 per cent, is German in parentage, language, and thought.¹

From the ninth century until the end of the World War the area was constantly under German rule, with two short interruptions: the first, from 1680 to 1697, under Louis XIV; and the second, from 1793 to 1815, following the French Revolution. A claim to the Saar formed no part of the publicly defined war aims of the French government. That such an acquisition was, in fact, part of its policy became clear, however, with the publication by the Bolsheviki in November, 1917, of a secret agreement made on February 12 of that year between Russia and France by which the latter was to be given the Saar coal basin. Studies made by French experts in preparation for the Peace Conference recommended that in taking back Alsace-Lorraine the coal supply necessary for the industries of these provinces should be assured by also annexing the Saar. M. André Tardieu drew up a memorandum which demanded as a minimum the whole Saar basin. The French claims to the Saar were resisted by the English and Americans at Versailles, and at one stage in the negotiations President Wilson threatened to leave the Conference. In the end a compromise was adopted which provided that, as compensation for the destruction of mines in the north of

¹Sarah Wambaugh, *Plebiscites Since the World War* (Washington, Carnegie Endowment for International Peace, 1933), Ch. X.

War and the Private Investor

France, Germany was to cede to France complete ownership in the coal mines of the Saar. In order to assure France all possible facilities for working the mines, Germany was further required to turn over the government of the territory to the League of Nations. In 1935, the Treaty stipulated, a plebiscite should be taken to determine whether the area would return to Germany, go to France, or remain under the rule of the League of Nations. In case of a victory for Germany the government of the Reich would be obliged to buy back the mines from France. Meanwhile, French money might be introduced into circulation, there were to be no tariff barriers between France and the Saar, and, after a transition period of five years, the Saar basin was to be completely subject to the French customs regime.

Though it later became apparent even to the most ardent French nationalists that there was no chance of persuading the Saar populace to vote for union with France in the 1935 plebiscite, many Frenchmen at the time hoped that the area might be won in the course of fifteen years, and at least some in high positions set out enthusiastically to increase French influence in the Saar. In addition, some French industrialists had an interest in bringing the metallurgical industries of the Territory under the sway of business agreements designed to limit competition in the French home market, for the Treaty abolished the customs frontier between the Saar and France. The process by which French private industrial investments, impelled by these two motives, were pushed into the heavy industries of the Saar is the subject of this case study.

When the Allied victory transferred Lorraine from Germany back to France, a complex industrial entity based upon the exchange of Saar coal for Lorraine iron was threatened with disruption. Saar metallurgists had long owned valuable and important properties in Lorraine—mines and industrial plants. By offering to accept a minority participation of French capital, certain German firms in the Saar attempted to avoid the sequestration of their Lorraine holdings by the victors, but the French government apparently had a differ-

Private Investments and Diplomacy

ent plan for maintaining the unity of the Saar-Lorraine industrial region. It attempted, so the Germans allege, to bring together under French ownership both the former German property in Lorraine and that still held by German industrialists in the Saar, and as a means to this end offered the sequestered Lorraine properties for sale on the condition that those who would buy a former German metallurgical holding in Lorraine must first acquire a controlling interest in the corresponding Saar concern. Interested French groups, of course, thereupon made active efforts to buy majority shares in Saar industrial establishments, and in this endeavor they received the active support of the French government. Of the chief German metallurgical firms in the Saar all but one (Röchling) finally had to yield under this pressure and accept a 60 per cent French participation in the ownership of their businesses.¹

The difficulties in the way of securing accurate and adequate information regarding proceedings of this sort are immense. In this case, as in others, the interconnections of politics and finance are not to be found in the realm of open covenants openly arrived at. In what follows, the attempt has been made to gather and to weigh impartially such information as is available concerning the process by which French capital entered Saar industries; but since the evidence is not as perfect as might be desired the reader must judge for himself how much confidence can be placed in the conclusions. The post-war experiences of three outstanding German firms in the Saar will first be recounted, largely on the basis of information furnished by the firms themselves or by those sympathetic with them. These are: Stumm Brothers (Gebrüder Stumm, G.m.b.H., Neunkirchen-Saar), the Röchling firm (Die Röchling'schen Eisen und Stahlwerke, G.m.

¹This statement needs some qualification. The Homburg Iron Works owned by the firm of Stumm Brothers took in French capital only to the extent of 40 per cent. The Burbach Foundry, property of the Arbed concern, occupied a special position due to its Belgian and Luxemburg ownership. Many manufacturing establishments and machine shops (German, "*weiterverarbeitende Industrie*") remained entirely German.

War and the Private Investor

b.H., Völklingen-Saar), and the Dillingen firm (Aktiengesellschaft der Dillingen Hüttenwerke, Dillingen-Saar). Then follows a brief discussion of the general movement of French capital into the Saar, then such comments as it has been possible to gather from French sources, and finally a statement of conclusions as to the facts and their significance.

In January, 1919, the properties in Lorraine belonging to the firm of Stumm Brothers were seized and placed in sequester by the French; thereafter the Saar enterprise had to buy ore from its filial in Lorraine as though there were no relation between them.¹ The first overtures on behalf of a French firm for acquisition of an interest in the Saar properties of the Stumm family were made in April, 1919, while the Peace Conference was still in session. M. Bailly of Nancy called on the Stumm firm, saying that the fate of the Saar was decided, and that the Stumm managers had better look to French participation in their organization. Due to the loss of their properties in Lorraine, it seemed to the Stumm executives themselves that the business could not go on living without some scheme for mutual coöperation with the eventual owners of the Lorraine interests. They informed M. Bailly, however, that the only terms acceptable to them would be a minority participation by French capitalists in their Saar establishment, in return for which they would demand a share in the ownership of their former holdings in Lorraine. M. Bailly said he thought this could be arranged, though he remarked that the terms which the French government was demanding were less favorable. At this point the Stumm firm agreed with other leading German firms to present a united front by refusing to negotiate with any French capitalists

¹Unless otherwise indicated, information regarding the Stumm firm which follows is based upon an interview with the general manager for the Stumm family's interests at Neunkirchen, Dr. Deubert, who himself participated actively in the negotiations and transactions here described. The events related in the text were told to the writer not merely from memory, but with the aid of documents in the firm's files—letters, telegrams, memoranda of conferences dictated at the time, and minutes of meetings. As a check on accuracy of reporting, the account which appears in the text was later submitted to the general manager in writing and certain corrections made.

Private Investments and Diplomacy

regarding the sale of majority interests in their businesses.¹

Shortly thereafter a new discussion with French negotiators took place in Frankfort. The Stumm representatives had instructions to proceed cautiously. The attitude of the Frenchmen at this conference was quite different from that of M. Bailly. They said his talk was all nonsense, that the French government demanded 75 per cent participation by French capital in the Saar industry, and that it was useless to resist. Furthermore, the German industrialists would not be allowed to share in the ownership of their former Lorraine properties. The Stumm negotiators refused to discuss any such terms, and the French left in indignation.

Next came M. Cammerer, whose brother was connected with the French Foreign Office and who negotiated on behalf of the Crédit Mobilier and the Société Générale. He was told that before Stumm Brothers could consider the sale of a part interest in the firm, assurance would be required on three points: first, the preservation of some connection between the Lorraine and the Saar properties of the Stumm family; second, the limitation of the French share in the Saar works to a minority interest; and, third, continued independence for the Stumm administration. On June 21, 1919, M. Cammerer said that conversation with officials in the French Foreign Office had left him with the impression that the government did not intend to force French capital into the Saar. He had not spoken with M. Loucheur, Minister of Industrial Reconstruction in the Liberated Regions, however, and the German industrialists remarked that it was the opinion of this Ministry and not that of the Foreign Office which was really important.

A few days later the general manager of the Stumm interests was summoned for an interview with Commandant Rich, chief of the *Service Industriel* of the French occupying troops

¹Dr. Fritz Schleifenbaum, *Die wirtschaftliche Ueberfremdung der eisenschaffenden Industrie des Saargebietes* (Berlin, 1928), p. 41, says that all four of the German metallurgical firms—Dillingen, Röchling, Rudolph Böcking, and Stumm—agreed under no circumstances to make concessions regarding the acceptance of French capital without previous consultation among themselves.

War and the Private Investor

in the Saar. Rich, according to the report of this manager, delivered a tirade at him, riding whip in hand, and threatened to send him over the boundary. The Commandant expressed himself as most indignant over the three conditions of sale which had been laid down, said they were brazen and impudent, and declared that the French government would require a 66 per cent French participation in the Stumm firm. The Stumm representative answered that the interested French capitalists themselves had said they would be content with a minority participation and refused to yield.

Still another French group came forward about this time and were told that the Stumm family was prepared to accept a 30 per cent participation in the Saar if liquidation of the Lorraine properties could be avoided. It was obviously to the interest of the German owners to make substantial concessions in order to avert liquidation in Lorraine (the Lorraine properties finally brought at forced sale only about 10 per cent of their peace-time value). Furthermore, it was a practical necessity for the Saar industries to maintain some sort of vertical integration with the ore mines and smelting works of Lorraine; and if the French government insisted upon liquidating these, then there was no choice for the Saar works but to arrive at an agreement with the new French owners.

It was not particularly important to the French capitalists, on the other hand, that they should obtain a majority interest in the Saar industrial properties. They were out primarily to do a profitable bit of business in buying the Lorraine properties cheaply. The word had gone around, however, that purchase of Saar-owned properties in Lorraine would be permitted only to those who also acquired rights to the related Saar works. The French capitalists themselves were not eager to expend more than necessary in the Saar, and, without the insistence of the French government, they would have been satisfied with much less than a majority interest.¹

¹Schleifenbaum, *op. cit.*, p. 46, asserts that an offer made to the Stumm works in June, 1919, by a group headed by the Acéries de Pompey proposed a 60 per cent French participation with an option to the German owners to repurchase 20 per

Private Investments and Diplomacy

Such, at least, was the impression of the German industrialists who negotiated with them.

The prospective French purchasers who had approached the Stumm managers thus far had been interested, perhaps primarily, in handling securities. But in July, 1919, the Massenet group said they wanted an interest in Saar steel in order to provide themselves with a sure basis for their manufacturing operations. They agreed to be content with a 40 per cent participation in the Stumm works in the Saar and to leave the Stumm family a $33\frac{1}{3}$ per cent interest in the Lorraine portion of their property. They received a formal option embodying these terms. Soon afterward, the Bes-soneau group (Jules Bernard) made inquiries, and perhaps had contact with the French government. In any event, Massenet shortly raised various objections to the terms of the option and demanded changes which the Stumm Brothers considered impossible, including an equal division of stock ownership between the two parties.

After the interview in June, Commandant Rich of the *Service Industriel* had not participated further in the negotiations, merely keeping himself informed of their progress. In October he again called a Stumm manager to his office and advised him emphatically to come to an agreement with some French group, no matter which. It was folly to resist further. To insist upon the conditions which the firm had laid down was going too far; it must come to book. The French government demanded as a minimum a 60 per cent participation for French capital. Early in November there was another interview with Commandant Rich,¹ who said he had

cent after ratification of the Peace Treaty. There were long negotiations on this basis, but they were finally abandoned. "This attempt to circumvent the governmental demands shows, at any rate, that some of the French capitalists took no interest in the economic-imperialistic plans of their Government which aimed at the acquisition of active control over Saar industry. They did not wish to invest great sums of capital in the Saar, on account of the difficulty in financing such investments, if for no other reason. Their capital investments in Saar works were made primarily in order to obtain the award of properties being liquidated in Lorraine."

¹The report to his Board on this interview was dictated by the Stumm general manager on November 8.

War and the Private Investor

just talked to Minister Loucheur. The French must have a 60 per cent participation in the Saar steel industry. The Peace Treaty would probably go into effect on November 21 (it actually did not until the following year); and, although it required that coal deliveries be continued to Saar industries, there was nothing to prevent the French from shutting off the supply of Lorraine ore. In fact, there was an old law in France under which the export of ore might be forbidden. All steel firms in the Saar which refused to accept a 60 per cent French participation would get no ore. Loucheur had told him this, said Rich.

Meanwhile, pending the ratification of the Peace Treaty, the coal mines of the Saar were still under the control of the occupying military forces. The morning after this last interview with Commandant Rich, a confidential phone call from a German mining engineer reported to the Stumm firm that orders had gone out to stop coal deliveries to their works. There was also difficulty with the ore supply, and in November the plant had to be closed down. It was during these weeks that the main negotiations with the Bessoneau group were going on.

The last straw was the intelligence that other German industrial leaders in the Saar also found themselves approaching the end of their resistance to French capital participation; so, on November 22, 1919, an option on a controlling interest in their works at Neunkirchen-Saar was made out by the Stumm representatives to whichever French group should purchase their Ueckingen plant in Lorraine at auction. Certain conditions which they inserted in the option, notably an attempt to except from its provisions a plant for producing special high-grade steel, drew denunciations from Commandant Rich, who cursed them as betrayers. On December 5 Rich said he had orders to hold back coal deliveries until the terms of the option were altered, and he showed a French government letter to that effect. There was nothing for the German owners to do but agree; so on December 6 they signed the final option. Sixty per cent of the capital stock was

Private Investments and Diplomacy

to be sold to Frenchmen.¹ Commandant Rich was asked to certify that in his opinion the option was satisfactory, and did so; but he remarked parenthetically that he was not to be considered an official representative of the French government.²

It was thus that the sale of a 60 per cent interest in the Stumm works at Neunkirchen to a company organized by the Forges et Aciéries du Nord et de l'Est came about. Continued operation at a loss led in 1926 to another readjustment in ownership. A banking combination including the Otto-Wolff group and the Deutsche Bank purchased 40 per cent of the shares, the French company retaining 20 per cent, and the Stumm family 40 per cent.³ So six years later control passed again into German hands.

All through the negotiations of 1919 the Stumm firm and the German government were in close touch. The Foreign Office in particular urged the firm to hold on as long as possible and to retain as much of its property as possible, for the whole affair was looked upon as a political battle. Officials earnestly requested the Stumm family above all not to abandon its traditional seat in the Saar, since such a withdrawal would inevitably have taken on tremendous significance in the minds of the populace, who would have interpreted it as a sign that Germany had given them up.

We turn now to the fate of the Röchling firm, where pressure of an entirely different sort was involved. During the war the two owners, Robert and Hermann Röchling, had served as officers in the German army and had carried out orders for the crippling of steel works in the occupied areas of France. Shortly after the armistice they were included in a list of "war criminals" whose punishment was demanded in France.

¹The Stumm interests were allowed to insert certain safeguards in the sale contract which assured them a voice in the administration of the business. The French group was to select one managing director, the German group, one, and a third was to be chosen by a three-fourths majority.

²The Stumm managers felt that those who applied the pressure on the firm intentionally did so in ways which would not leave written proof, especially proof that the French government was involved.

³*Kölnische Zeitung*, February 18, 1929.

War and the Private Investor

They were charged with having stolen materials and having maliciously damaged French factories. Their defense was that they were acting under orders to execute measures due to military necessity and hence sanctioned by the law of nations. Robert was arrested in November, 1918, but Hermann, warned in time, got away. Both were tried by court-martial at Amiens and found guilty. They were sentenced to serve ten years in prison and to pay heavy fines. Hermann Röchling, who had escaped detention,¹ was naturally concerned about the fate of his imprisoned brother; and, when the diplomatic efforts of the German government and of the Vatican failed to effect his release, the Röchling firm informed the *Service Industriel* that if Robert were freed and the sentence against Hermann quashed within a specified time, then the firm would yield to French wishes in regard to the participation of French capital in the enterprise. An industrial group headed by the Acières de Longwy had been seeking to obtain part ownership on the basis of the French governmental demands, but its overtures had hitherto been refused.²

Early in November, 1919, the Röchling firm signed a preliminary agreement with the Société Lorraine Minière et Métallurgique, founded by the Longwy group, in which the French company was given an option for the purchase of a 60 per cent participation in the Saar works at a price of seventy million francs. Certain portions of the plant devoted to the production of special grades of steel were excluded from the option, however, and the validity of the whole was made dependent upon the release of Robert Röchling and the quashing of the proceedings against both brothers. The Société Lorraine simultaneously handed in a bid for the Röchling properties which were undergoing liquidation along with other German possessions in Lorraine. This arrangement did not meet the approval of the French government. On December 5, the Röchling firm was informed through the

¹He was sentenced *in contumaciam*.

²Schleifenbaum, *op. cit.*, pp. 59-64.

Private Investments and Diplomacy

Service Industriel that control over the entire works must be transferred to French capitalists and that the conditions regarding Robert and Hermann Röchling could not be fulfilled.¹

It was primarily the detention of Robert Röchling which induced the firm to continue the negotiations.² Upon its declaration that it was ready to accept a 35 per cent participation in those portions of its works from which it had previously sought to exclude French ownership a new bargain was struck and a new option granted. This option contained the same conditions as to Robert and Hermann Röchling as before, expressed in the following terms:³

This agreement is binding on the Röchling Iron and Steel Works only in case, by August 31, 1920, the "non Lieu" for Messrs. Robert and Hermann Röchling has been pronounced, Robert Röchling has been permanently released, and all further proceedings of any kind against members of the Röchling family by the French government have been dropped.

The French government is said to have expressed itself as satisfied with the new option,⁴ and the Lorraine properties of the Röchlings were awarded to the Société Lorraine for 34,150,000 francs.⁵ Meanwhile, the French government

¹*Ibid.*

²Schleifenbaum, *op. cit.*, pp. 59-64, writes that the economic pressure on Röchling could not be made so severe as on the Stumm firm for the reason that the Röchling works supplied gas to Saarbrücken, which necessitated coal deliveries, and that Röchling had personal relations which helped his firm to get ore. These statements are described as inaccurate by the firm itself, which informs the writer that the French were under no necessity to treat it with consideration. Nevertheless, the firm says that it made known to the French as emphatically as it could at the time that "Röchling would never consider accepting the participation in question were it not for the fact that Mr. Robert Röchling (at the instigation of the then minister, Loucheur) was under French arrest." (Statement from the Röchling firm communicated to the writer through Dr. W. Cartellieri, director of the Saar Economic Archives, Chamber of Commerce [*Handelskammer*] of Saarbrücken.)

³My translation of the German text supplied by the Röchling firm through the channel mentioned in the preceding note. This was Article 7 of the option.

⁴Schleifenbaum, *op. cit.*, p. 61.

⁵In preparation for carrying out its portion of the agreement, the Röchling firm transformed itself into a holding company and divided the Saar works between two newly-formed subsidiaries. (*Ibid.*)

War and the Private Investor

initiated a new trial of Robert Röchling, and he was acquitted. He was released from prison in Nancy in October, 1920. The French government then demanded that Hermann Röchling present himself before a court at Amiens in order to have the sentence against him annulled, but this he refused to do, insisting instead that the government should obtain the necessary court decree on its own initiative and thus "repair the injury to justice." When this was not done within the time limit¹ specified in the option agreement with the French industrialists, Röchling declared his firm no longer bound by its terms. Furthermore, during the long delay due to these proceedings the depression of 1920 had begun and had so affected the iron industry that the Société Lorraine no longer regarded participation in the Röchling works as advantageous.² The Röchling family, therefore, half on a legal technicality and half by accident, succeeded in retaining possession of its Saar interests.³

The third enterprise to be examined is the Dillingen foundry. Even in 1914 some 43 per cent of its capital stock had been owned by French shareholders.⁴ Dispossessed during the war, they were restored to their rights with the conclusion of peace. These French stockholders organized themselves into a syndicate and requested the French government to cancel the sequestration and liquidation proceedings under way in Lorraine so far as the possessions of the Dillingen company were concerned, pointing out that the disruption of the vertical combination which bound the Saar and Lor-

¹The limit mentioned in the article of the agreement quoted above seems to have been extended somewhat. (Cf. *ibid.*, p. 61.)

²Special circumstances made the crisis particularly severe for Saar industries. The Röchling firm is reported to have lost 58,300,000 marks from January to May, 1921. (*Ibid.*, p. 62, footnote.)

³The Röchling firm claims that from 1919 to 1924 a secret rebate of 3 to 5 per cent was accorded by the French coal mines to its competitors. (Interview with Dr. Rupp, secretary to Kommerzienrat Hermann Röchling. Also H. S. Weber, *Der Kampf um die Saar* [Berlin, 1928], p. 89.)

⁴Schleifenbaum, *op. cit.*, pp. 43-49, 56-59. The account given by Schleifenbaum, who as son of a former general director may be presumed to have had access to reliable information regarding the Dillingen firm, is followed in the text.

Private Investments and Diplomacy

rairie works together would injure important French capital interests. The French government answered that it would abstain from liquidating the Lorraine properties of the Dillingen firm only if 75 per cent of its capital stock were found to be in the hands of French citizens. The French group now asked the German group to sell at least enough of its stock to fulfill this condition and even stood ready to buy the entire German holding. Though the terms of sale proposed were not disadvantageous, the German owners "regarded the fight against foreign control nevertheless as a self-evident national duty and therefore rejected the French proposal."¹ The French group now endeavored quietly to buy up enough stock in small parcels to gain control and thereby raised its participation to 44 per cent. The Germans then saw the danger that a few additional purchases might give absolute administrative control to the French capitalists; they tried to avoid this contingency by offering to allow the French a 50 per cent interest on condition that the corporation's statutes be amended to prevent complete control by either group. These negotiations broke down also. At a conference on August 5, 1919, the German and French stockholders agreed on a proposal to the French government under which the majority would be in the hands of French and "Saar" citizens, but the Minister of Reconstruction, Loucheur, declared that no such arrangement would be acceptable. The French government was determined to proceed with the liquidation in Lorraine unless the absolute control of the Dillingen firm were in French hands.

Finally the German group yielded and agreed to raise the French participation to 60 per cent—still on condition, however, that certain statutory changes be made in order to prevent the Germans from being deprived of all voice in the administration of the enterprise. With this the French capitalists declared themselves satisfied. These qualifications were to be treated as confidential, however, since they plainly violated the requirements laid down by the French govern-

¹*Ibid.*, p. 44.

War and the Private Investor

ment. On this basis an option was signed, and the French group agreed to lengthen the terms in office of certain German directors. Nevertheless, political and business causes brought about a conflict between the French and German groups early in 1921. The French government saw certain political objectives—particularly the introduction of wage payment in francs—endangered by the incomplete administrative control of the Dillingen firm. Loucheur thereupon demanded that the French group dismiss the German general director and replace him by a Frenchman. He threatened reprisals not only against the Dillingen firm but also against other enterprises in France owned by these French stockholders. The result, of course, was the assumption of complete administrative control by the French.

We have now examined in detail the methods employed in the three most important and interesting cases connected with the post-war French capital penetration of heavy industry in the Saar: the pressure on the Stumm, the Röchling, and the Dillingen firms. The extent of post-war "*Ueberfremdung*," as German writers call it, by French capital in the minor industries of the Saar need be only briefly outlined. The Dingler-Karcher steel manufacturing works became French to the extent of 60 per cent of its capital, but was later repurchased by Germans. The Ehrhardt and Sehmer machine factory had a similar history; first it became 60 per cent French, then, after several reorganizations, found itself in German hands again. Several other firms, like the Agricultural Machinery Company and the Mannesmann Tube Works, came and remained under the majority control of the French. On the other hand, a considerable number of machine factories and metal works succeeded in pulling through without the necessity of taking in French capital at all: the Seibert structural steel and bridge works, the Heckel wire factory, the Karcher, Roth, and Company screw factory, and others. In the glass industry, those plants manufacturing sheet glass remained under purely German ownership, but several bottle-making firms passed into the possession of

Private Investments and Diplomacy

French capitalists. Two organizations in the electrical industry were temporarily in French hands, but by the end of 1926 had become German again. Attempts of French firms to establish themselves in the retail trade of the Saar were few; the number of French wholesale branches was somewhat greater, but, in general, the trade of the district remained German. French capital did not penetrate into the old established banking institutions of the Saar, but a number of French banks established branches in the Territory.¹

It is not suggested, of course, that French capital in all these cases was pushed into the Saar Territory and its acceptance forced upon German firms with the aid of governmental pressure. After all, the same economic forces which induced a tremendous flow of foreign capital into other industrial sections of Germany were operative in the Saar. A large part of the French capital invasion took place during the depreciation of the mark. Furthermore, there were certain special economic factors at work, such as long-standing connections between the economic life of the Saar and of Lorraine. Likewise very important, however, were certain effects of the political situation upon the economic life and prospects of the Saar; these constituted a general, but none the less powerful pressure in support of the "*Ueberfremdung*" by French capital. First of all, there seemed to be some prospect in the beginning that the Saar Territory would become permanently French. Again, the governing authorities introduced French francs as the medium of exchange, and this doubtless encouraged French investors. More important still, not only did the Peace Treaty establish freedom of trade between the Saar district and France, but it raised the prospect that after a five-year transition period the Saar would constitute an integral part of the French customs system. This meant a shift in markets for Saar products. The German owners of Saar industries were faced by the prospect of find-

¹*Kölnische Zeitung*, March 31, 1929. See also an article by Dr. Fritz Schmidt, "Frankreichs Kapitalanteil an der Saarländischen Wirtschaft," in the *Rheinischer Beobachter*, VIII (June, 1929), pp. 174-79.

War and the Private Investor

ing themselves outside the German tariff wall and therefore cut off from old markets in Germany. Industrialists in France anticipated costly competition within their national preserves from these newly admitted outsiders, who must therefore be brought into their production-quota and price-fixing schemes. The resulting pressure on the Germans to sell and on the French to buy is obvious.

As a matter of fact, the influence of German and French industrialists interested in the Saar on their respective governments brought about special Franco-German agreements in 1925, 1926, and 1928 which modified the customs provisions relating to the Saar in the Treaty and permitted continued exports to Germany.¹ This change in the customs prospects of the region, coupled with recovery of economic strength in Germany after the passing of the inflation crisis and the gradual perception by everybody concerned that a German victory in the plebiscite of 1935 was a foregone conclusion, turned the tide of capital movements in the Saar. By the end of 1926, as we have seen, many of the firms which had passed into French control were again in German hands. A very considerable amount of French capital remained invested in the Saar District, however.

Germans who have written about the penetration of French capital into the Saar, and especially about the pressure applied to the greatest German metallurgical firms under the military administration in 1919-20, see behind it definite political intentions—a conscious attempt by the French to link the economic life of the Saar definitely with France and thus (as well as through French schools established for the children of workers and by other propaganda means) to

¹R. Martin, "Die zollpolitische Lage des Saargebietes," in *Lebensfragen der Saarwirtschaft*, published by the Handelskammer of Saarbrücken, August, 1929.

The German Saar industrialists went to Berlin and said, "We are Germans, after all. Let us export into Germany, even though it does cause competition." The French Saar interests said in Paris, "We know we are asking for an alteration in the Treaty of Versailles, but we need the German market in order to live and in order not to compete disastrously with French industry at home." (Interview with M. Drouard, secretary-general of the *Chambre de Commerce Franco-Sarroise*, Saarbrücken.)

Private Investments and Diplomacy

influence the plebiscite of 1935.¹ In their first energetic campaign just after the war, say the Germans, the French in the Saar believed that economic and cultural penetration might be effective enough in the course of fifteen years to bring the Territory permanently into the French fold at the plebiscite.

What do the French in the Saar have to say concerning these allegations? The writer talked at Saarbrücken with a number of Frenchmen prominently connected with the industrial life of the region,² among them a high official of the Administration des Mines, two men actively engaged in the management of metallurgical interests, and the secretary-general of the Chambre de Commerce Franco-Sarroise. Only one of these was willing to accept the view that pressure had been exercised by the government to get French capital into

"All in all," concludes an article in the *Kölnische Zeitung* (March 31, 1929), "the situation still remains such today that French capital, even after the receding movement, has a downright determining influence in the Saar District, which is made still stronger by the currency and customs tie with France. . . . Now, in truth, it is the characteristic fate of the whole German economy that everywhere foreign capital has large interests, and no political objections can be raised on that score. In a boundary territory, however, this question takes on quite another meaning, especially when foreign capital interests have reached such an extent as they have in the Saar. That an attempt will be made at the time of the plebiscite to take full advantage of the artificially created economic dependence of the Saar District on France, especially the dependence of large groups of employees, is beyond question. One may say that these efforts will not be successful. Nevertheless, it seems desirable to us that the reverse movement of French capital proceed still further, even before the reincorporation of the District by Germany."

In a similar sense, an article in *Wirtschaftsdienst* (Hamburg, October 9, 1923): "The French intentions regarding the Saar District were mainly of a political character. The attempted economic separation from Germany was to be followed by a political separation. The incorporation of the Saar District in the French economic sphere was designed to bring that Territory, connected by economic interests with France, to attach itself politically to France also."

One more quotation, out of hundreds that might be added, is from the *Deutsche Bergwerks-Zeitung* (Dusseldorf, November 3, 1929): The French metallurgical investments at the end of the war in the Saar were made "at the instigation of the government, with the intention of industrial penetration for the purpose of exerting pressure in connection with the future plebiscite."

²It should also be said that copies of this article in manuscript form were addressed to M. Louis Loucheur, former Minister of Industrial Reconstruction in the Liberated Regions, and to the secretary-general of the Chambre de Commerce Franco-Sarroise with a request for corrections of fact or comment on the interpretation of the facts. Shortly after the copies were dispatched the death of M. Loucheur occurred. No answer was received from the Chambre de Commerce Franco-Sarroise.

War and the Private Investor

the Saar. One of the government's means of encouraging its capitalists to enter, said he, had been to make it as cheap as possible for them to buy, and this was done through the control of coal. The others denied that pressure of this sort had ever been used on the German firms¹ and emphasized purely economic aspects of the situation which had made the Germans want to sell and the French want to buy.

Just after the war the Germans felt that the Saar was lost, say the Frenchmen whom the writer had the opportunity of interviewing. They knew that if the French adopted the same methods that they themselves would have employed in a similar case, there would be no chance for German industries.² Therefore, the German industrialists sought to get out and to save themselves as best they could. They were glad to sell. Even if they intended to remain they needed French connections in order to find a market in France. Röchling occupied a special position; his was an old family long attached to the Saar, and his firm was impelled by sentimental, political considerations to hold on.

The French metallurgical industry, on the other hand, which was solidly organized within France, saw the Saar works being brought inside the French tariff wall to offer competition, and, perhaps, to upset their system. They naturally wanted to control the Saar production, as well as that within France, under their quota arrangements. Hence, the buying of interests in the German industries of the Saar was a matter of price protection for the internal market from the standpoint of the French metallurgists. "There is often a tendency to see some huge, general plan back of trans-

¹The fact that Röchling and other German firms never did admit French capital and nevertheless kept on working was cited as proof that the French did not use their control of coal to apply pressure. It was also remarked to the writer, "If the French had wanted to put pressure on German industries what necessity was there for doing it through coal? All that was needed at any time was a prohibition on ore export from Lorraine." The German allegations in general were branded as the stories of ardent propagandists.

²It was remarked to the writer in different interviews in almost the same words, "The Germans imagine all these things, because it is exactly what they would have done."

Private Investments and Diplomacy

actions like the buying of Saar industries by French capital and their later repurchase by Germans," concluded one of the Frenchmen interviewed. "Really, each transaction was an affair in itself, with economic, profit-seeking motives back of it. Frenchmen and Germans are even able to unite for such purposes."¹ As for the part played by the French government in the capital transactions in the Saar after the war, it consisted entirely of moral influence. The government, which means the Ministry of Reconstruction headed by M. Loucheur, merely counseled and advised French industrialists to buy control of German firms in the Saar, pointing out that this was necessary for their own protection against price competition. In other words, according to this view, the new orientation of Saar economy after the war and under the Treaty of Versailles was such that it had as a *result* the movement of French capital into the region. French capital was not pushed in as a means to a political end, but came instead for business reasons which arose, it is true, partly out of a political situation.²

¹When the Germans bought back French interests in many of the Saar firms after about 1925, the French protected themselves against the danger which had originally induced them to buy. International steel agreements were signed which embodied certain clauses limiting the amount of steel which Saar firms were to sell in France. (M. Drouard, interview, and his article, "L'Union Douanière Franco-Sarroise," in the series "*Union Douanière Européenne, Études Documentaires*," No. 12, December, 1930.)

²One finds, indeed, in some portions of the French press the definite affirmation that French capital was invested in the Saar at the instance of the government. The industrial organ, *La Journée Industrielle*, for example, has put the matter as follows:

"After the armistice numerous groups of French financiers and industrialists, often at the request of public authorities [*souvent à la demande des pouvoirs publics*], acquired important interests in various Saar enterprises." (January, 10, 1928.)

And again: "When the Treaty of Versailles . . . set up the Saar Territory and accorded to France the ownership of the mines, the French government, with the understandable object of consolidating its position in a provisional territory where it had such great interests, asked French industrialists to go into the Saar and invest considerable sums of capital there [*demanda aux industriels français d'aller dans la Sarre et d'y investir d'importants capitaux*]." October 14, 1927.)

Likewise, a member of the French Senate, writing in the *Revue Politique et Parlementaire*, expresses himself thus:

"Following the Treaty of Peace the mines and steel plants of Lorraine were liquidated to the profit of French companies, and a considerable amount of French capital was engaged at the instigation of the French government [*à l'instigation du*

War and the Private Investor

Now that the allegations of the Germans and the replies of the French have been stated, together with the best evidence which it seems possible for an outsider to obtain without having available the resources which a really searching inquiry would demand, certain conclusions may be drawn. On the factual questions involved, there can be little doubt about the validity of the following findings:

1. French capital did enter the Saar Territory in large amounts after the war, replacing German capital and in many instances obtaining a controlling influence over important firms, particularly in the iron and steel industry. A reverse movement set in about 1925.

2. Economic factors resulting from the new situation of the Saar under the Peace Treaty go a long way toward explaining the movement of French capital into the Saar and are sufficient to explain most of it in its entirety. Nevertheless, the French government was more than a passive observer; it certainly *advised* and *counseled* its capitalists to enter the Saar, probably *requested* some of them do so, and probably *induced* others to enter who would not have done so otherwise (by means of conditions attached to the purchase of sequestered Lorraine properties, for example).

gouvernement français], in the principal steel companies of the Saar, with the exception of that of Röchling." (Frédéric Eccard, Sénateur du Bas-Rhin, "L'aspect économique du problème sarrois," *Rev. Pol. et Parl.*, November, 1930, pp. 169-84.)

In evaluating statements such as these, however, one must remember that there has been talk in recent years of returning the Saar to Germany by special agreement without waiting for the plebiscite of 1935. There was a natural tendency, therefore, on the part of those French circles with interests in the Saar which might be injured by the sudden reestablishment of a customs boundary between the Saar and France, to emphasize the government's rôle in their original entry. Perhaps still more important is the desire of French industries in the Saar to obtain favorable railway rates on their shipments in France. "We came in as a favor to the government; we must be fairly treated now," runs the argument. An instance of this sort is accorded by one of the articles quoted above from *La Journée Industrielle* (October 14, 1927, reporting the speech of M. Puech, president of an economic congress held at Saarbrücken). It complains of the political uncertainty in the Saar and continues: "*Les industriels et les commerçants français de la Sarre expriment avec discrétion leur malaise, mais trop de signes peuvent leur faire craindre qu'on cesse de les soutenir dans leur rôle d'ambassadeurs bénévoles.*"

Extreme nationalists who oppose on principle any concession whatever by their country and stand for an aggressive policy in the Saar made use of similar arguments.

Private Investments and Diplomacy

3. In addition to the general economic pressure resulting from the changed situation of the Saar and the uncertainty of its future, very specific pressure backed up by threats and actual interference with necessary supplies was exerted upon certain of the most important German firms in the Saar in order to force them to sell a majority of their share capital to French buyers. This pressure was applied through the *Service Industriel* of the French occupying military forces, with the knowledge and probably at the instance of the Minister of Industrial Reconstruction in the Liberated Regions at Paris. The pressure referred to occurred in 1919 and the early months of 1920. There is no evidence that it lasted longer, nor that such methods were employed after the military occupation was terminated, the Peace Treaty put into force, and the League of Nations Governing Commission set up.

A word on the interpretation of what took place in the Saar. An example of economic "penetration" it clearly is, but is it an example of: (1) the influence of private profit-seeking investors on the foreign policies of a government? or (2) the influence on private investments of a government with certain national purposes to promote? The two often go hand in hand, and in the Saar episode there seems to have been something of each, but (2) apparently dominated.¹ Patriotic officials were out to consolidate the French position in the Saar and to begin a process of reorientation which might culminate fifteen years later in the permanent addition of a bit of important territory, which they had been denied in the Peace Treaty, to the homeland. There may have been also in the minds of the Ministry of Reconstruction—M.

¹The question of what influence lay behind the French demand for the Saar at the Peace Conference is not being discussed here. Some think that French industrialists pressed for the taking over of the Saar in order to be able to buy the German industries cheaply and that M. André Tardieu was the mouthpiece of this group. Aside from the fact that it is hardly reasonable to suppose that the French steel industry was anxious to bring still more competing plants into its internal market, one hardly need to seek farther than ordinary patriotic expansionism and the attraction which Saar coal would have for nationalistic economists, industrialists, and statesmen, to explain the French ambitions.

War and the Private Investor

Loucheur and his associates—some project for building up a French continental iron trust.¹ For the fulfillment of these aims, French capitalists were encouraged by the government to invest in the industries of the Saar District, and apparently some of them were led to invest more capital in the Saar than they really wished to put there. We have seen evidence of the fact that it was repeatedly the French government and not the capitalists concerned who insisted upon a majority rather than a minority interest in the Saar steel firms, and this lends strong support to the interpretation suggested here, as does also the willingness of the French shareholders in the Dillingen enterprise to make secret terms not as stringent as those demanded by the government.

¹Schleifenbaum, *op. cit.*, pp. 32-36, interprets the French actions in the Saar almost wholly in terms of an "economic imperialism" seeking to gain monopolistic control of the metallurgical industry on the continent of Europe.

CHAPTER 10

How Governments Influence Their Investors

WHEN the French government began its policy of penetration in Morocco it had a good deal of difficulty at the start in getting the support of bankers. The first loan to the Sultan under the new policy was in 1904. The Banque de Paris et des Pays-Bas showed great reluctance and refused to handle the loan when originally requested to do so by the Ministry of Foreign Affairs. Later a banker was found who agreed to undertake the business, but a consortium of eleven banks had to be formed to carry through this one tiny transaction. The Crédit Lyonnais had shown a similar hesitation a few years earlier when French diplomats in China secured the right for one-third participation of French capital in the Yangtze Navigation Company. M. Bompard, later ambassador to Turkey, had charge of the matter for the Ministry of Foreign Affairs, and his first approach to the bank met a refusal substantially in these terms: "Our money is not our own but that of our stockholders and depositors. If we invest it far off on the Yangtze we shall be laying ourselves open to merciless criticism. We must look first to the security of the funds in our trust."¹

¹Interview with a retired French diplomat, M. Guiot, 1930. He negotiated the 1909 accord with Germany over Morocco, held the rank of "ministre plénipotentiaire de première classe" at the foreign office, was a representative of the holders of Moroccan bonds, member of the board of the State Bank of Morocco, and chief of the Moroccan customs control service.

War and the Private Investor

German statesmen in 1904 had to formulate a line of conduct with reference to French penetration in Morocco. Ambassador Radolin suggested from Paris that the German government might either explain openly to the French its concern for German trade and request guarantees of equitable treatment in Morocco, or it might simply say nothing and force France to broach the subject by matching every French move with a German one. That is, if France began "peaceful economic penetration" from the east, Germany might do the same from the west. This latter suggestion, noted the Secretary for Foreign Affairs, von Richthofen, was more appealing in itself than the first, but it might be hard to execute due to lack of financial power. "Die deutschen Banken streiken geradezu alle, sobald man von Marokko spricht." ("The German banks, every last one of them, go on strike as soon as Morocco is mentioned.")¹

The American Assistant Secretary of State who helped apply the Knox policy of "dollar diplomacy" during the administration of President Taft had much trouble at times persuading bankers to invest money in certain Caribbean countries where the State Department needed American capital to back its policy. He remembers phone calls to New York appealing to the patriotism of certain bankers there not to withdraw from placements already made or asking them to put new capital into loans to Central American governments, and conferences were held to the same end. It was hard to find a taker for certain loans. Once having yielded to patriotic appeals from Washington, the bankers would still be reluctant and worried about the safety of the loans; periodically it was necessary to renew the appeals to "keep the bankers on the reservation." They were always asking for security.²

These instances illustrate the reluctance of capital to undertake hazardous ventures abroad. The managers of

¹*Die Grosse Politik* No. 6524 (July 27, 1904), No. 6525 (July 29, 1904).

²Interview with Mr. F. M. Huntington Wilson, 1931. See Chapter 4, first paragraph.

Private Investments and Diplomacy

important investment funds are not ordinarily eager to rush in with placements in regions where, in their opinion, the state of affairs is unsettled and the prospects for security unclear. The caricature of the banker burdened with bags of "surplus capital," forced to seek outlets for his excess funds in hazardous territory, then calling upon his government for protection, belongs mainly in mythology. The truth is that enterprises involving considerable amounts of capital (disregarding, that is, the schemes of promoters, adventurers, shoe-string speculators and indemnity hunters) are ordinarily undertaken with reluctance in regions where there are obvious financial hazards, and very often only after considerable persuasion from a government with a political axe to grind. Frequently those areas or ventures of most importance to diplomats, strategists, and patriots, in which the presence of national capital would be most serviceable to the government's foreign policy, are the very ones least calculated to inspire enthusiasm in those who hold available funds. When purely economic prospects are not attractive enough in themselves to bring about private investments desired for diplomatic reasons, what can a government do? How can it influence its investors?¹

INFLUENCE BY PARTICIPATION, SUBSIDY, GUARANTEE

The extent to which governments have participated directly in "private" enterprises of political importance in foreign territory and have guided or stimulated other such enterprises by subsidies and guaranteed earnings proves to be surprisingly large when one sets out to collect the instances. This is a forceful demonstration of the significance which has come to be attached to investments as a tool of diplomacy. Direct methods of this sort seem to have been most used by countries with relatively feeble capital resources or by countries whose investors are exceptionally opposed

¹The discussion which follows applies, of course, only to countries where private enterprise operates in international trade and finance, not to regimes in which the state rules international economic transactions directly.

War and the Private Investor

to risky entrepreneurial operations abroad: Tsarist Russia, Japan, Italy, in the first class; France in the second. The governments of Great Britain, the United States, and Germany have not resorted to these methods so frequently, in part because the private capital and initiative of their citizens has been more widespread over the earth and more venturesome, supplying national footholds freely where policy needed them, or responding readily to indirect guidance and control.

The Suez Canal, opened in 1869, was constructed under the direction of a Frenchman, de Lesseps, by a company which had sold most of its stock in France and was regarded there as a patriotic French undertaking. British diplomacy looked on the venture as a political conspiracy to provide the occasion for interference by France in the Near East and as a threat to Britain's maritime supremacy. It adopted obstructionist tactics. Ismaïl Pasha, the ruler of Egypt, had granted the canal concession, and had invested eighty million dollars in the enterprise. In 1875 the same ruler, now become Khedive, faced financial ruin and offered to sell his 176,000 shares of stock to a French syndicate. This intelligence came to the British Foreign Office through a London journalist and was brought to Disraeli. A parliamentary appropriation might have been difficult to obtain, and anyway Parliament was not sitting, so Disraeli borrowed four million pounds sterling from the Rothschilds (their commission was $2\frac{1}{2}$ per cent, or five hundred thousand dollars, plus five per cent interest until repayment) and purchased the shares for Great Britain. Though there were only 400,000 shares outstanding, the British government's purchase did not give it the degree of legal control that one might expect, for there were restrictions in the statutes of the company regarding the number of votes that might be cast by any single shareholder. An arrangement with de Lesseps admitted three British representatives to the Board of Directors. Disraeli's famous stroke also turned out to be financially profitable to England, besides winning influence over a strategic link on the road to India.¹

The Chinese Eastern Railway was the foundation of Tsarist Russia's politico-economic penetration of Manchuria as well as an enormous bridge connecting two portions of Russian territory in

¹Charles W. Hallberg, *The Suez Canal; Its History and Diplomatic Importance* (New York, 1931), Ch. XV; Sir Arnold T. Wilson, *The Suez Canal; Its Past, Present, and Future* (Oxford, 1933), Ch. IV.

Private Investments and Diplomacy

the Far East. The original concession for the construction of the railway was conferred in 1896 on the Russo-Asiatic Bank, a private company which had been organized in connection with a loan contracted by China in order to pay contributions called for by the Shimonoseki Treaty with Japan. The loan itself had been arranged by the Russian statesman, Witte, with Paris bankers and carried the guarantee of the Russian government. Shareholders in the Bank (at first called the Russo-Chinese Bank) were the Russian Imperial Treasury and large credit institutions of France; the Chinese government helped to support it by making large deposits. Thus, the bank originally empowered to build the railway was actually connected by close ties, including partial ownership, to the government of Russia. Likewise, the Chinese Eastern Railway Company to which the concession was transferred and which actually carried out the project was in the control of the Russian government. Its statutes provided that its lines were to form an inseparable whole with adjoining Russian lines, the tariff for transit passengers was subject to the approval of the Russian government, mail was to be carried free of charge. In return, the Russian government guaranteed the Company's expenses of exploitation and the annual payments due on its bonds. The Russian treasury regularly covered large deficits arising not only out of the operation of the railway, but also out of tasks related to the administration of the country, which also devolved upon the Chinese Eastern.¹

Japan as well as Russia used the device of partial ownership and financial guarantee of a "private" company to control railway capital supporting its imperial interests in Manchuria. The South Manchuria Railway Company, organized to operate the line from Port Arthur north to Changchun obtained by virtue of the Treaty of Portsmouth from Russia, has always been merely another name for the Japanese government. When the government formed the company in 1906 it retained one-half of the capital stock and offered the other half to private investors, guaranteeing a return of six per cent on the paid-up capital for fifteen years. Actually, however, four-fifths of the paid-up capital stock remained in the hands of the government, which also appointed the president, vice-president, and directors. Besides the railway system, the South

¹*North Manchuria and the Chinese Eastern Railway*, published by the Chinese Eastern Railway Company (Harbin, 1924), p. 39. Further showing the actual control of the Russian government is the fact that a secret decree gave the Company and its employees the benefit of special court procedure provided for government institutions and government employees. (W. W. Willoughby, *Foreign Rights and Interests in China* (Baltimore, 1927), p. 425; J. MacMurray [ed.], *Treaties and Agreements with and Concerning China, 1894-1919* [New York, 1921], pp. 89-90).

War and the Private Investor

Manchuria Railway Company has conducted a great variety of other activities, including shipping, quays, electric power stations, mines, tramways, gas industries, hotels, agricultural experiment stations, farms, water works, an iron foundry, glass works, a tile factory, and even schools and hospitals.¹ Between 1925 and 1930 much of this property, aside from the railways themselves and certain mines, was turned over to a number of subsidiary companies in which the South Manchuria Company retained a controlling interest. The Japanese government thus controlled, by the familiar methods of corporate organization, business holdings within Manchuria that were estimated at nearly \$425,000,000 as of 1931.²

One of the best examples of direct governmental participation in capital investments abroad is afforded by the Oriental Development Company. A semi-public colonizing institution incorporated by a special Japanese law in August, 1908, it engaged at first in operations in Korea and then, after 1917, concentrated in Manchuria, which was its most important field of operation from 1919 to 1926. Since July, 1917, the Company has operated also in Mongolia, China proper, the Straits Settlements, and the islands of the South Seas, where it has interests in sugar plantations. The initial capital of the Oriental Development Company was 10,000,000 yen, one-fourth paid up. The Japanese government, with the object of controlling it, subscribed to 60,000 shares, which it still holds. Only Japanese subjects may own shares. The president of the company is appointed by the government, and the directors are appointed by the government from among twice as many candidates elected by the shareholders. Through these devices, through the close relations of the Company with the deposits bureau of the Finance Ministry, and through subscriptions to the Company's debentures by the various semi-official banks, governmental influence over it is assured.³

As in the case of banks organized under government auspices, the Japanese government guaranteed a six per cent dividend on all Oriental Development Company shares for the first few years. Likewise, it guaranteed unconditionally the two Oriental Development Company loans floated in the United States in 1923 and 1928. From 1921 to 1923, inclusive, shareholders received ten per cent, the

¹Willoughby, *op. cit.*, p. 222; M. J. Bau, *The Foreign Relations of China* (New York, 1921), p. 195 ff.; *Japan Year Book*, 1920-21, pp. 740-42; Lancelot Lawton, *Empires of the Far East* (Boston, 1912), p. 1165.

²C. F. Remer, *Foreign Investments in China* (New York, 1933), p. 90.

³Herbert M. Bratter, Finance and Investment Division of the U. S. Department of Commerce, in *Commerce Reports*, March 24, 1930; "The Oriental Development Company, Ltd.—A General Survey," published by the Company, Tokyo, August, 1930.

Private Investments and Diplomacy

highest dividends ever paid by the Company. In 1923, the year of the earthquake, dividends were lowered to eight per cent, and in 1927 had to be reduced still further. Shortly thereafter the Minister of Finance announced a plan for assisting the Company which included a two per cent reduction in the interest rate on loans advanced to it by the Finance Ministry and an agreement that the government would forego dividend payments on its 60,000 shares so long as earnings continued insufficient to pay five per cent on all non-governmental shares. In 1928 a law was passed which permitted the Company to pay dividends on the government's shares at a rate five per cent lower than that paid other shareholders from 1927 to 1931.¹

The first efforts of the Oriental Development Company were directed to the development of Korea, which was formally annexed in 1910 but was already in 1908 practically under the rule of Japan. At the time of the Company's reorganization in July, 1917, the head office was moved from Seoul, the Korean capital, to Tokyo; Seoul was made a branch, and new branches were established to expand the Company's sphere into Manchuria and Mongolia. The amount of loans outstanding thereupon rose rapidly. A large part of the Company's business resembles that of mortgage institutions in other countries. It extends loans to merchants, manufacturers, bankers, and municipalities for irrigation, drainage, construction, commerce, land settlement, and the like. It establishes and finances banks and trading posts, helps to supply settlers with implements, and has assisted with loans such varied enterprises as educational institutions, breweries, the ceramic industry, marine product undertakings, fruit growing, stock raising, mining, paper manufacture, rice polishing, bean milling, cotton spinning, and gas production.² In 1924, when the larger part of the Company's 152,000,000 yen advances was said to be outstanding in Manchuria, it was announced that its activities outside of Korea would be reduced, and by the end of 1926 loans in Korea again exceeded those in Manchuria.³

¹*Commerce Reports*, March 24, 1930.

²*Commerce Reports*, March 24, 1930; circular issued by the National City Bank of New York at the time of flotation of the 1928 loan.

³*Commerce Reports*, March 24, 1930. It was said at the time of the negotiations for the first of the \$20,000,000 loans from the National City Bank (1923) that the American government had raised objections against the use of these funds for the peaceful penetration of the Japanese government in Manchuria and Mongolia. American objections were said to have been allayed by representations from the Oriental Development Company that it had large outlays to make elsewhere than in Manchuria. (*Japan Chronicle*, Kobe, March 21, 1923, and April 20, 1923).

War and the Private Investor

In 1891 a Russian bank with a French name, the Banque de Prêts de Perse, was established in Teheran. Later it changed its name to the Banque d'Escompte de Perse. It was practically a Russian governmental institution, and its chief purpose was to compete with the English-controlled Imperial Bank of Persia while winning political influence for Russia.¹ With the resources of the Imperial Treasury behind them the Russians were able to be far more generous in their financial operations than the penny-pinching English, who had to show a profit for a private company—though the British government did give strong support to the Imperial Bank of Persia for political reasons and used it to advance government-guaranteed loans to Persia.² Russia had borrowed huge sums in France and could get more; why not put some of the French bondholders' savings at the service of Middle Eastern politics? So the Banque d'Escompte loaned money to the Shah on easy terms (though with political strings attached)—and not only to the Shah. In order to gain the goodwill of influential Persians the Russian bank showed them great liberality, and even extended this liberality to the public in general as a means of displacing the English bank. It loaned in profusion to everybody: ministers, courtiers, priests, business men, bankrupts, in sums far exceeding their real credit. The extravagant scale of its buildings and the huge salaries paid to its managers contributed to its annual deficit. After some twenty years, it is reported, all but about three million roubles of an original capital of thirty millions had been dissipated, and at Teheran alone the bank held credits of sixteen million roubles against individuals.³

France found it to the national advantage to subsidize a railway enterprise in Abyssinia. In 1894 the Emperor Menelik was in hot anger against the Italians, who had tried to trick him into accepting an Italian protectorate. French influence ran high at the Abyssinian court, and a concession was granted a French company for a railway from the port of Jibuti in French Somaliland to Addis-Ababa, the Ethiopian capital, and thence eventually to the Nile. Construction began in 1897. Financial difficulties arose when the Compagnie

¹"The Russian Bank at Teheran has the full support of the Russian Exchequer, its Manager takes his orders from the Minister of Finance at St. Petersburg, and the nature of its business is dictated by political rather than financial considerations." (*British Documents*, IV, 367.)

²*Ibid.*, IV, 371-2, for a loan to Persia through the Imperial Bank, the risk borne by the government of India and by the British government proper.

³Dr. Mahmoud Afschar, *La Politique Européenne en Perse* (Thesis at University of Lausanne, published in Berlin, 1921), pp. 69-71. See also Sykes, *op. cit.*, pp. 480 ff.

Private Investments and Diplomacy

Impériale des Chemins de Fer Ethiopiens found itself in need of new capital to cover unanticipated expenditures, and after unsuccessful attempts to raise funds in France it borrowed from a British syndicate. The International Ethiopian Trust and Construction Company organized to handle this business was composed not merely of financiers but included among its directors prominent personages of the governing class, ex-colonial administrators, and men like Sir Charles Euan-Smith, the former British diplomatic agent in Zanzibar who had aided in the acquisition of British East Africa. The Ethiopian Trust appears to have pursued a conscious policy of financial penetration into the French company, with a program which called for connecting the Abyssinian railway with a port in British Somaliland as well as with Jibuti, the French port, and for resisting the growth of French influence in Abyssinia. By 1901 the British had acquired almost a controlling interest. At this, French colonial circles took alarm and started a vigorous campaign, appealing to the patriotism of the French public to find sufficient capital for buying the railway free from "foreign control." The campaign did not succeed in producing the necessary private capital, but it did succeed in bringing the government to the rescue. An agreement signed on February 7 1902, accorded the Compagnie Impériale an annual subsidy of 500,000 francs for fifty years on condition that it remain French and in consideration of certain ultimate rights to ownership of the railway line which could be exercised by the French government under specified conditions.¹

This agreement produced a sensation in Addis-Ababa, where the astute and independence-loving Menelik hotly resented the indication that instead of a French private company he might find the French state within his empire. British diplomacy, of course, encouraged these views. Menelik showed his displeasure in ways which materially affected the financial prospects of the French company. He refused, for example, to sanction a scheme for the collection of a duty of ten per cent on merchandise carried between Jibuti and Harrar, "on the ground that he had granted the privilege to a commercial company, and not to a company which was practically owned and controlled by a foreign government."² Scandalous mismanagement and profiteering by insiders on construction supplies also appears to have hindered the progress of the line and to

¹*Bulletin du Comité de l'Afrique Française*, 1907, p. 90; Leonard Woolf, *Empire and Commerce in Africa* (London, 1919 [?]), pp. 205-11. Woolf bases his account largely on T. L. Gilmour, *Abyssinia: The Ethiopian Railway and the Powers* (London, 1905).

²Gilmour, *op. cit.*, p. 35, quoted by Woolf.

War and the Private Investor

have impaired its finances.¹ At any rate, the *Compagnie Impériale* again fell into difficulties, pledged the whole of the annual government subsidy to insurance companies in return for eleven million francs of ready cash, failed in efforts to raise further capital in France, and turned once more to the British syndicate, pledging eighty kilometers of the line as security.

The syndicate, the British minister at Addis-Ababa, the Italian minister, Menelik, and the French financial interests in the *Compagnie Impériale* now all supported proposals for internationalization of the railway under an administration in which France, Britain, and Italy would participate equally. Some members of parliament in France, like M. Jaurès, even many chambers of commerce, also favored internationalization, but the majority, especially the colonialists organized to carry on a vigorous propaganda through the *Comité de l'Afrique Française*, wanted the railway to remain purely French. They argued that French political interests in Abyssinia and East Africa generally, as well as the prosperity of the port of Jibuti, depended upon control of this line of communication to the interior. This was the view adopted by Foreign Minister Delcassé. In 1906 a tri-partite agreement between France, Italy, and Great Britain delimited the spheres of interest in Abyssinia within which each might build railways and left the Jibuti route to France, with the provision, however, that the French government would arrange for the appointment of an Englishman, an Italian, and an Abyssinian on the board of the private French company which might be entrusted with the work.² Meanwhile, the "bad Frenchmen" at the head of the *Compagnie Impériale* had been accused of opposing French diplomacy in Abyssinia, and French colonialists feared that something like Disraeli's purchase of Suez Canal shares might be repeated.³ The French government forced the old company into liquidation for violating the conditions of the 1902 subsidy agreement, arranged with Parisian banking firms in whose patriotism it had confidence to form a new company, headed by a former high colonial official, and guaranteed the earn-

¹See the discussions in the French parliament quoted extensively in the 1909 and 1910 volumes of the *Bulletin du Comité de l'Afrique Française*, especially the statements of Finance Minister Caillaux, M. Jaurès, and the reporter of the Budget Committee, printed in the 1909 *Supplément*, pp. 72 ff., and in the 1910 *Supplément*, p. 26.

²*British and Foreign State Papers*, 99 (1905-6), 486-9.

³Reports of M. Messimy on behalf of the Budget Committee and of M. Le Hérisse on behalf of the Committee on Foreign and Colonial Affairs of the Chamber of Deputies, quoted in the *Bulletin du Comité de l'Afrique Française, Supplément*, 1909, pp. 94 ff.

Private Investments and Diplomacy

ings of this new company, thus continuing to subsidize a railway enterprise on Abyssinian soil.¹

In southern China, also, France subsidized a railway on foreign soil. In this case, as in Abyssinia and in Tunis, the rails were a means of economic and political penetration from an existing French colony. Governor-General Doumer of Indo-China urged a considerable railway program upon the French government, particularly a line penetrating into Chinese territory, Yunnan, by the valley of the Red River. France emerged from the concession scramble of 1897-8, in which all the powers extorted railway-building rights from China, with permission to lay rails from the frontier of Tonking to Yunnanfu, the Chinese government having no other responsibility than to furnish the land and to permit the construction by the French government or by a private company which it might designate. In a law promulgated on December 25, 1898, the French parliament authorized the government of Indo-China to borrow 200,000,000 francs for use on this railway and to guarantee the earnings of a private company which would take over the concession. The money that the colonial government might be called upon to furnish was in turn guaranteed by the French republic. In 1901 M. Doumer succeeded in launching the *Compagnie Française des Chemins de Fer de l'Indo-Chine et du Yunnan*, a syndicate composed of the principal financial houses of Paris, with a capital represented by 12,500,000 francs in shares, 12,500,000 francs as a subsidy from the colonial government of Indo-China, and 76,000,000 francs in bonds guaranteed by the home government to the limit of 3,000,000 francs yearly.² When in 1908 the original concessionaire company collapsed on account of the enormous drain on its funds caused by expensive tunneling, bridging, cutting, and filling, the French parliament had to authorize and guarantee a new loan to complete the work. The line was opened to traffic in April, 1910, but its commercial prospects were not bright.³

¹*Bulletin du Comité de l'Afrique Française*, April, 1909, pp. 126-7, and *Supplément*, pp. 77 ff., where the text of the agreement between the Government and the new *Compagnie du Chemin de Fer Franco-Ethiopien de Djibouti à Addis-Ababa* and the law of April 3, 1909, approving this agreement are given. The settlement with the old company granted it an annuity of 610,000 francs for ninety-nine years, corresponding to a capital sum of 18 million francs, in exchange for its assets. The railway from Jibuti to Addis-Ababa, 495 miles in length, "was completed in 1917 and is under French management, receiving a subsidy from the French government. Trains run twice a week!" (Moon, *op. cit.*, p. 157, footnote.)

²Overlach, *op. cit.*, pp. 121-132.

³M. C. Hsu, *Railway Problems in China* (New York, 1915), pp. 58-61. The construction company formed to build the line was a consolidation of the *Régie Générale*

War and the Private Investor

have impaired its finances.¹ At any rate, the Compagnie Impériale again fell into difficulties, pledged the whole of the annual government subsidy to insurance companies in return for eleven million francs of ready cash, failed in efforts to raise further capital in France, and turned once more to the British syndicate, pledging eighty kilometers of the line as security.

The syndicate, the British minister at Addis-Ababa, the Italian minister, Menelik, and the French financial interests in the Compagnie Impériale now all supported proposals for internationalization of the railway under an administration in which France, Britain, and Italy would participate equally. Some members of parliament in France, like M. Jaurès, even many chambers of commerce, also favored internationalization, but the majority, especially the colonialists organized to carry on a vigorous propaganda through the Comité de l'Afrique Française, wanted the railway to remain purely French. They argued that French political interests in Abyssinia and East Africa generally, as well as the prosperity of the port of Jibuti, depended upon control of this line of communication to the interior. This was the view adopted by Foreign Minister Delcassé. In 1906 a tri-partite agreement between France, Italy, and Great Britain delimited the spheres of interest in Abyssinia within which each might build railways and left the Jibuti route to France, with the provision, however, that the French government would arrange for the appointment of an Englishman, an Italian, and an Abyssinian on the board of the private French company which might be entrusted with the work.² Meanwhile, the "bad Frenchmen" at the head of the Compagnie Impériale had been accused of opposing French diplomacy in Abyssinia, and French colonialists feared that something like Disraeli's purchase of Suez Canal shares might be repeated.³ The French government forced the old company into liquidation for violating the conditions of the 1902 subsidy agreement, arranged with Parisian banking firms in whose patriotism it had confidence to form a new company, headed by a former high colonial official, and guaranteed the earn-

¹See the discussions in the French parliament quoted extensively in the 1909 and 1910 volumes of the *Bulletin du Comité de l'Afrique Française*, especially the statements of Finance Minister Caillaux, M. Jaurès, and the reporter of the Budget Committee, printed in the 1909 *Supplément*, pp. 72 ff., and in the 1910 *Supplément*, p. 26.

²*British and Foreign State Papers*, 99 (1905-6), 486-9.

³Reports of M. Messimy on behalf of the Budget Committee and of M. Le Hérisse on behalf of the Committee on Foreign and Colonial Affairs of the Chamber of Deputies, quoted in the *Bulletin du Comité de l'Afrique Française, Supplément*, 1909, pp. 94 ff.

Private Investments and Diplomacy

ings of this new company, thus continuing to subsidize a railway enterprise on Abyssinian soil.¹

In southern China, also, France subsidized a railway on foreign soil. In this case, as in Abyssinia and in Tunis, the rails were a means of economic and political penetration from an existing French colony. Governor-General Doumer of Indo-China urged a considerable railway program upon the French government, particularly a line penetrating into Chinese territory, Yunnan, by the valley of the Red River. France emerged from the concession scramble of 1897-8, in which all the powers extorted railway-building rights from China, with permission to lay rails from the frontier of Tonking to Yunnanfu, the Chinese government having no other responsibility than to furnish the land and to permit the construction by the French government or by a private company which it might designate. In a law promulgated on December 25, 1898, the French parliament authorized the government of Indo-China to borrow 200,000,000 francs for use on this railway and to guarantee the earnings of a private company which would take over the concession. The money that the colonial government might be called upon to furnish was in turn guaranteed by the French republic. In 1901 M. Doumer succeeded in launching the *Compagnie Française des Chemins de Fer de l'Indo-Chine et du Yunnan*, a syndicate composed of the principal financial houses of Paris, with a capital represented by 12,500,000 francs in shares, 12,500,000 francs as a subsidy from the colonial government of Indo-China, and 76,000,000 francs in bonds guaranteed by the home government to the limit of 3,000,000 francs yearly.² When in 1908 the original concessionaire company collapsed on account of the enormous drain on its funds caused by expensive tunneling, bridging, cutting, and filling, the French parliament had to authorize and guarantee a new loan to complete the work. The line was opened to traffic in April, 1910, but its commercial prospects were not bright.³

¹ *Bulletin du Comité de l'Afrique Française*, April, 1909, pp. 126-7, and *Supplément*, pp. 77 ff., where the text of the agreement between the Government and the new *Compagnie du Chemin de Fer Franco-Ethiopien de Djibouti à Addis-Ababa* and the law of April 3, 1909, approving this agreement are given. The settlement with the old company granted it an annuity of 610,000 francs for ninety-nine years, corresponding to a capital sum of 18 million francs, in exchange for its assets. The railway from Jibuti to Addis-Ababa, 495 miles in length, "was completed in 1917 and is under French management, receiving a subsidy from the French government. Trains run twice a week!" (Moon, *op. cit.*, p. 157, footnote.)

² Overlach, *op. cit.*, pp. 121-132.

³ M. C. Hsu, *Railway Problems in China* (New York, 1915), pp. 58-61. The construction company formed to build the line was a consolidation of the *Régie Générale*

War and the Private Investor

Governments have not only directly influenced, through partial ownership, subsidy, or guarantee, such enterprises as canal, railway, and development companies and banks, but they have interested themselves in oil companies. The acquisition of stock in the Anglo-Persian Oil Company by the British government in 1913, as a result of the Admiralty's conviction that the needs of the navy demanded property in oil wells, has been mentioned above.¹ The French government participated in the *Compagnie Française des Pétroles*, and Italy also possessed its own government-controlled oil company, the *Azienda Generale Italiana Petroli*, which has conducted operations in Albania, Rumania, and elsewhere.² Steamship lines, cable companies, and lately wireless stations and air lines operating abroad have also been notable subjects of governmental solicitude.

The Italian government's financial sponsorship of development enterprises in Albania has been described (Chapter 9), as have the shipping subsidies which aided the *Banco di Roma* in its Tripoli undertakings (Chapter 3), and the guarantee of earnings with which Bismarck proposed to assist the Godeffroy firm in Samoa (Chapter 5). In Tunis, before the occupation by France in 1881, both France and Italy subsidized railway lines for penetration purposes. (See Chapter 12.)

BY PERSUASION AND INDUCEMENTS

From the number of instances in which governments have gone so far as to use direct methods of subsidy, guarantee, or partial ownership to influence and control investments

des *Chemins de Fer* and the *Société des Batignolles*, which had built subsidized railways for the French government in Tunis before Tunis became a French protectorate.

¹Chapter 4. See S. Gargas, "Politique pétrolière dans les Pays-Bas," *Revue Économique Internationale*, 1927, I, pp. 79-81. It was officially stated in 1929 that the holding consisted of 7,500,000 ordinary shares, 1000 preferred shares, and £199,000 of 5% debenture stock. The market value of the ordinary shares approximated £32,773,500. (*London Times*, March 21, 1929.)

²Dr. Wilhelm Mautner, "Erdölkonflikte Heute und Morgen," *Europäische Gespräche*, VII (1929), 200-201.

Private Investments and Diplomacy

abroad we are justified in surmising that there must have been many more cases in which governments would have been glad to exercise some sort of influence. The direct methods discussed above have two grave disadvantages which often (in certain countries almost always) make a resort to them impossible: they necessitate a more or less open avowal before the world of a policy of politically directed economic penetration, and in democratic countries they require appropriation of funds by what may be a critical parliament. Hence, we should expect to find that governments which wish to employ foreign investments as tools of foreign policy often make use of more subtle methods. Instead of authorizing a subsidy or formally guaranteeing profits they may employ various concealed artifices of persuasion upon investors, inducing them in a confidential manner to undertake projects which promise to further the government's purposes. Such methods of positive governmental influence on foreign investments are, indeed, far more prevalent than those treated in the preceding section. Unlike open subsidies and guarantees, however, they do not leave their traces in public documents, and in studying them we are thrown upon somewhat vague and unsatisfactory evidence.

It is abundantly clear, however, from cases of the type detailed in Chapters 3 and 4, that governments often do succeed in directing private investments abroad to political ends. Sometimes it is only necessary to cultivate the seeds of national interest already sown in a politically important region by some hardy enterpriser. This method has been open to Great Britain, for example, in almost every area where political influence was desired, for British traders and investors penetrated on their own initiative into all the highways and most of the byways of world commerce. The British government rarely lacked economic instruments of foreign policy. Sometimes a government proceeds by obtaining the promise of concession rights from a foreign country through diplomatic channels and then sets out to find a taker for the concession among its own financiers. Those who have not

War and the Private Investor

looked into such matters and imagine that concessions are always sought at the instance of profit-seeking capitalists do not realize how frequently the initiative comes from governments, and how frequently governments are even unable to find capitalists willing to accept the "opportunities" that diplomacy desires to press upon them. During the scramble for spheres of interest in the Far East the main business of the diplomats for a time seems to have been to extract all possible concessions from China and then to peddle them from one financial group to another. "Obsessed by their political aims," writes Sir Charles Addis, manager in London of the Hongkong and Shanghai Banking Corporation, "the Governments were reckless of finance, and in their anxiety to peg out claims for posterity the powers entered with light hearts into contracts without regard to the ability of their nations to carry them out within a reasonable time."¹ A former German diplomat remarked in 1898 that the powers might find something better to do in Peking than to quarrel over projects for which it was questionable anyway whether any capital could be found.²

In still other cases a government may work in close co-operation in a particular area with a selected banking institution or a syndicate which lends itself as the instrument of the government on some projects and benefits from the aid of the government to its own interests in other projects. Having a monopoly of diplomatic support, the private financiers are quite sure to obtain some very profitable privileges and can afford to contemplate some losses on other more risky enterprises undertaken for political reasons. That this was the relationship between British diplomacy in China and the British and Chinese Corporation, Ltd., with reference to railways, has already been indicated in Chapter 6.³ All the

¹"Policy and Finance in China," *Far Eastern Review*, March, 1920, pp. 162 ff. The article appeared originally in *The International Review*.

²M. von Brandt, "Tagesfragen," *Deutsche Revue*, August, 1898, Vol. 23, Part 3, p. 237.

³"As a direct result of the situation arising from the keen struggle for railway concessions in 1898 to strengthen the political hold of the European powers on

Private Investments and Diplomacy

leading powers at times forwarded their policies in China through close coöperation with quasi-official banking institutions. Japan used the Yokohama Specie Bank and a syndicate composed of the Bank of Taiwan, the Bank of Chosen, and the Industrial Bank of Japan. Russia's political purposes were served by the Russo-Asiatic Bank, earlier called the Russo-Chinese. These Japanese and Russian banks were owned in part and controlled by their governments, thus bringing them properly under the preceding section of this discussion. German financial interests in the Far East were organized in the Deutsch-Asiatische Bank, founded in 1889 under the leadership of the Disconto-Gesellschaft and the Deutsche Bank with the encouragement and assistance of the Imperial government.¹ The strong official interest in this institution was shown by the direct participation of the Prussian State Bank (the Seehandlung)² and by provisions in the charters of the Shantung Railway Company and the Shantung Mining Company, whose formation was entrusted

China, the organization of a purely British Company became essential to act as the official instrument for the execution of the concessions extracted from the Chinese Government." The Hongkong and Shanghai Banking Corporation, having on its board of directors representatives of great German trading firms, had up to this time been operating under an agreement with the official German banking syndicate for mutual participation in administrative and railway loans to China. Now it terminated that agreement and with the British firm of Jardine, Matheson and Company organized the British and Chinese Corporation, Ltd. This strong, representative and influential syndicate contracted henceforth with the Chinese government for the construction of all the great British-built railways in China and, with the exception of the Peking Syndicate, whose activities lay in another direction, was able to command a monopoly of the British government's support. "From time to time other British railway constructors endeavored to secure a footing in China but were compelled to retire after severe financial losses and leave the field to the undisputed control of the official commercial organization." The monopoly exercised by the syndicate within the British sphere was thus a monopoly of railway construction to the exclusion of both British and non-British interests, and on its side the syndicate fitted its economic program into the political aims of Great Britain. (Overlach, *Foreign Financial Control in China*, pp. 46-49, quoting the *Far Eastern Review*, Vol. 10, p. 297.)

¹Karl Helfferich, *Georg von Siemens* (Berlin, 2d. edn. 1923), II, 168; *Die Disconto-Gesellschaft, 1851 bis 1901* (a semi-centennial publication by the Bank, Berlin, 1901), pp. 212-14.

²Jacob Viner, "Political Aspects of International Finance," *Journal of Business*, I (July, 1928), p. 332; Helfferich, *op. cit.*, III, 118; *Die Grosse Politik*, XIV, Part II, 470.

War and the Private Investor

to the Deutsch-Asiatische Bank, for a measure of government control and government sharing in the profits.¹ France used the Banque de l'Indo-Chine, and, in association with it, the Crédit Lyonnais, the Comptoir National d'Escompte de Paris and other banks. Belgium was represented by the Société Belge d'Etudes de Chemins de Fer en Chine, while American interests acted for a time through a banking group originally constituted under the guidance of the State Department by J. P. Morgan and Company, Kuhn, Loeb and Company, the First National Bank of New York, and the National City Bank of New York.²

What types of persuasion and inducement do governments have at their command in securing the coöperation of private capital abroad, apart from direct financial participation or subsidy? The expressions used by insiders on occasion are both revealing and puzzling. "In Nicaragua a New York bank of the highest standing *was induced* to invest in the financial rehabilitation of the country, its transactions giving it an interest in the railways and in the customs revenues, which it is always desirable to remove from the reach of revolutionary depredations." So wrote a former high official of the Department of State, who also testifies that in Santo Domingo, in Cuba, in Honduras, and in Haiti the United States government participated in bringing about investments by American banks, "*urging on the investors* to lend themselves as instrumentalities of foreign policy."³ Lord Curzon, Under Secretary of State for Foreign Affairs, wrote to Lord Salisbury in April, 1898: "I think our next step in China should be *to get some reliable syndicate* to undertake the trunk lines North and South from the Yangtze—North towards Peking, South towards Canton."⁴ Sir N. O'Connor,

¹MacMurray, *op. cit.*, pp. 240, 242.

²Willoughby, *op. cit.*, pp. 980 ff. on the financial agencies of the various powers in China.

³F. M. Huntington Wilson, in the *Annals* article cited in Chapter 4.

⁴He also pointed out the danger in Russian projects, to which Salisbury replied: "I understand you to propose that we should resist and prevent the construction of any Chinese railway to whose expenses any Russian bank has subscribed. Is this

Private Investments and Diplomacy

British Minister at Constantinople, urged British investment in the Bagdad Railway project, suggesting to the Foreign Office in a dispatch of July 1, 1901, that, "Without some *impulsion* from official quarters British capitalists may not be disposed to move in the matter."¹ A French banker once related to Paul von Schwabach, a German colleague, that Foreign Minister Delcassé had called him in at the beginning of the developments which led up to the Moroccan crises. Delcassé said that the French government intended to adopt a forward policy in Morocco, that a parallel action on economic lines would be desirable, and that he was "*counting on*" the coöperation of the French banks to provide it.² When the German government was urging its financiers into Italian investments to support the Triple Alliance, as related in Chapter 4, "*regard for* the important interests at stake" prevailed over difficulties encountered in the founding of the Banca Commerciale Italiana.³

In the scanty first-hand accounts of governmental influence on private investments expressions like these recur continually. The government "urges," "induces"; there is "impulsion" from official quarters; the government "counts on" the coöperation of its bankers, who have "regard for" diplomatic interests. Now, just what means of persuasion constitutes urging? To what motives or interests can the government appeal when it induces and impels? Why can it (sometimes, not always) count on the bankers?

First, the interlocking personal connections, ties of friendship, social and business acquaintanceship, and class consciousness which go far to explain the influence of private investors on government are also important factors in the

practical? . . . I do not see my way, if Russian Capitalists will throw their money about, to preventing the Chinese from picking it up. We must find some equally patriotic Capitalists on our side; otherwise we must say sorrowfully of the Russian coin—"Roublet." (Earl of Ronaldshay, *Life of Lord Curzon* [New York, 1928], I, 286-7.)

¹*British Documents*, II, 175-6.

²Paul H. von Schwabach, *Aus meinen Akten* (printed and privately circulated, but not published, Berlin, 1927), p. 335.

³*Die Disconto-Gesellschaft 1851 bis 1901*, cited above, pp. 69, 216.

War and the Private Investor

influence of government on private investors. These connections between the rulers of business and the rulers of government have been sufficiently analyzed and illustrated in Chapter 8. Not decisive in themselves, perhaps, they greatly facilitate the operation of persuasions and inducements and must be re-emphasized here.

Secondly, there are certain motives not directly connected with the making of profits which have weight with investors and to which governments may appeal. The chief of these, of course, arises out of the sentiment of patriotism. Now, it would be ridiculous to exaggerate the rôle of patriotism in determining the decisions of financiers in the placement of funds abroad. Probably in the vast majority of transactions it enters very slightly or not at all—not consciously, at any rate. But it would be an equally bad mistake to overlook the reality, on occasion, of conscious non-profit motives. It is well known that men of wealth have voluntarily devoted large sums to the promotion of religion, or of science. Others, both rich and poor, have subscribed great sums in the aggregate to charitable enterprises. Is it cause for wonder, then, if those who direct investment operations and those who buy securities are sometimes influenced in the disposition of their capital funds by nationalist ideals?—ideals which are more vital to many modern men than religion, and for which many have willingly died. Wealthy Zionists financing investments in Palestine provide us with an example of capital movements clearly determined by politico-religious motives. It was the sentiment of nationality which induced Germans in Czechoslovakia to lend money from their coöperative organization to another German minority in the Siebenbürgen district of Rumania.¹ Furthermore, the influence of patriotic sentiment may impinge upon the investor in a thousand unobtrusive ways, so that when he thinks he is putting his money in a country that has a bright future, or is safe, he may really be responding unconsciously to a conditioning process which has been carried out by the blandishments of

¹Reported at the session of the *Deutsches Auslandsinstitut* in Stuttgart, 1930.

Private Investments and Diplomacy

a patriotic or government-inspired press. This had much to do with sending French savings before the war to Russia. It helps to explain the flow of English capital to the colonies. Finally, patriotic investments are not necessarily unprofitable—as Cecil Rhodes testified. The appeal to patriotism, therefore, may be effective if it does no more than swing a doubtful balance between equally attractive or equally risky opportunities. Or the financier may feel that in the long run his fortunes and those of his country will rise or fall together. This seems to have been in the mind of Georg von Siemens, founder of the Deutsche Bank, who wrote to a German consul in Messina that to his regret the principles of organization followed in the business would not permit him to establish a branch of the bank there as the consul had suggested, “much as we also would be interested in strengthening the German element in Italy. For you are wrong if you believe that this is a minor consideration with us. In the long run one can earn a great deal of money with safety only when one adopts great national and ideal considerations for one’s own and identifies one’s own interests with the general interest. Our big business men, just as well as our diplomats and soldiers, must play a part in politics, and our country would be much more powerful if the government understood how to make use of the great potentialities in this field which are now unnecessarily wasted.”¹

Some governments are able to appeal to another powerful non-profit motive which strongly influences most men, and, one may suspect, acts with special effectiveness on those who have already reached the pinnacle of success in finance and business. This is the craving for distinction that is fostered and satisfied by the granting of patents of nobility, orders of merit, knighthood. Instances are probably rare where a capitalist has received such recognition as the immediate result of compliance with his government’s wishes in the placement of funds abroad, just as direct bribes are relatively unimportant in the influence of investors on governments.

¹December 1, 1883; Helfferich, *op. cit.*, II, 164.

War and the Private Investor

Rather, like good jobs with oil companies and banks for former state officials, these distinctions are legitimate prizes, endowed with social approval, which dangle before the eyes of aspirants and supply an incentive to act generally in a seemly and becoming manner. Even after the award, to be addressed as "Herr Kommerzienrat" or to read one's name in the society column and the financial page as "Sir" or "Baron" so-and-so, may operate to induce a general attitude of sympathy for the policies and projects of the state and a fellow-feeling with those who guide the nation's political destinies, thus preparing a more responsive reception for the hints or urgings of the government. Financiers have received their share of noble honors at the hands of modern governments. A German writer points out, for example, that although the regime of Wilhelm I was rather niggardly in this respect, recognition was bestowed on the head of the banking house of Schickler, on the founder of the F. W. Krause banking house, on Adolf Hanseemann of the Disconto-Gesellschaft, and on Gerson Bleichröder, the banker friend of Bismarck. The reign of Wilhelm II provided such honors more copiously. Two Frankfort bankers, Metzler and Granelius, were raised to the nobility, as were the son-in-law of the last Prussian Rothschild, Goldschmidt, Schwabach of the Bleichröder firm, and Rudolph Koch of the Deutsche Bank.¹

Thirdly, there are various ways in which governments are able to induce the coöperation of private capital through appeals to the normal profit motives of business. Special efforts may be made to bring profitable opportunities in areas of strategic political importance to the attention of business men and investors, through reports and private correspondence of diplomatic and consular officers, personal contacts by foreign office men with business leaders, official utterances, press propaganda, and the like. Normally unprofitable opportunities may be made commercially attractive by obtaining concessions which carry a subsidy or guarantee from the government of the capital-receiving country. The Bagdad

¹Richard Lewinsohn, *Das Geld in der Politik* (Berlin, 1930), pp. 19-20.

Private Investments and Diplomacy

Railway, for example, would hardly have been attractive to capitalists without its kilometric guarantee from the Turkish government, and many railway projects in China had Chinese governmental guarantees. Or privileges and bargains at home may help to induce capitalists to coöperate with the government abroad, as we observed in connection with the Banco di Roma's penetration of Tripoli and French post-war penetration of heavy industry in the Saar. It is reported that the Imperial German Marine Office, actively seeking to promote German interests in Shantung, had some difficulty in finding commercial firms to help it along with its Far Eastern policy, and that firms which did establish bases there received favors of one kind or another, such as coal orders from the navy.¹

Wholehearted consular and diplomatic support in some countries may make all the difference between profitable and unprofitable investment enterprise, by helping the investor to obtain contracts, to overcome the obstruction of petty officials or foreign rivals, to secure permission for carrying out business plans, to check depredations on plantations, to obtain a cheaper and better labor supply, or to get satisfaction on claims against the government. If the investor is sure that he can count on the vigorous support of his government, that in itself reduces his risks and heightens the profit inducement. Since in urging its citizens into particular investments a government impliedly if not expressly obligates itself to lend them vigorous support of this character, the very circumstance that his government urges him on is likely to carry a promise of profit to the investor, as well as an appeal to his patriotism. The State Department, for example, after persuading American bankers to enter rather against their will into various investments in the Caribbean area could hardly stand by inactively and see them lose their money.²

¹Confidential interview with a well-informed man in Hamburg.

²"By urging on the investors to lend themselves as instrumentalities of foreign policy the government clothed those investors with rights to protection of especial dignity," is the way that Mr. Huntington Wilson puts it in his *Annals* article, cited in Chapter 4.

War and the Private Investor

The profit incentive to investment in a given region may also be enhanced by diplomatic measures tending to exclude foreign rivals and thereby to establish a partial or complete monopoly. Thus, the pegging out of spheres of interest can in itself be a means of influencing private capital to re-enforce the government's foreign policy. Furthermore, when a government commits itself definitely to a certain line of action abroad and lets it be known that it has serious and permanent political intentions in a particular area, that in itself encourages private investors to assist, for they see chances to get in on the ground floor, so to speak, and to speculate on a politically induced rise in values. When it became clear, for example, that the French government had adopted a consistent forward policy in Morocco and would not turn back, especially after troops had been sent in, the early unwillingness of the bankers to risk funds there disappeared.¹ Many companies and individuals also began to speculate on a political rise, anticipating that increased stability and economic development would come with a French protectorate. Urban sites at Casablanca originally costing a few centimes the square meter brought three francs in 1909, six francs in 1910, twenty-five francs in 1911, forty in 1912 (the date of the French protectorate), and one hundred to one hundred fifty in 1914.²

The definite, open commitment of the government to support of an enterprise abroad which it desires to promote, expressed in various ways, may be an important aid to the financiers in selling the securities and hence be a means of inducing them to coöperate. "Our power as bankers extends no further than we can be carried by the approval of the public," said Georg von Siemens, founder of the Deutsche Bank and leader in the Bagdad railway undertaking, in 1888.

¹Some of those who early saw which way the wind was blowing and were among the first to follow the wishes of the government by putting money into Morocco reaped rewards by getting the best opportunities later. (Interview, M. Guiot, cited above.)

²Raymond Bouissi, *Étude sur la colonisation capitaliste au Maroc* (Thesis, University of Paris, 1921), p. 35.

Private Investments and Diplomacy

"If we were to conduct our business with the meager means actually owned by a bank we should be at the end of our resources and of our influence within a few months. Our business is simply a matter of feeling the pulse of the public and of moving a bit in advance of its feel."¹ That is why a few years later, when the German Foreign Office was pressing the Deutsche Bank to proceed more rapidly in the Bagdad matter than von Siemens thought possible in view of the difficulty of financing the huge project, von Siemens suggested that the government might assist by agreeing to accept the railway bonds as collateral for loans at the Reichsbank and by persuading the Prussian State Bank (the *Seehandlung*) to participate openly in floating the next bond issue. The active coöperation of the State Bank would, of course, stimulate the confidence of the public. The Foreign Office and the German ambassador in Constantinople were for giving this moral support, though the State Bank itself was opposed. Some years later it was finally prevailed upon to lend its partial coöperation in the Bagdad enterprise.² Similarly in England, Lord Lansdowne at the Foreign Office saw the political desirability of British participation in the Bagdad Railway under a scheme of internationalization which was then being discussed, but "if we insist upon having such a share someone must be prepared to receive it." So he made inquiries in "the City" and was told that "unless the British Government gives practical proof of its confidence in the undertaking by giving it material support in one shape or another British financiers are not likely to come forward." The suggestion advanced by Lord Rothschild and Lord Revelstoke (of Baring Brothers) was that the government should agree to take part of the ordinary shares.³

Finally, a desire to benefit from the goodwill of the department of foreign affairs in connection with other business

¹ Helfferich, *op. cit.*, III, 31.

² *Ibid.*, III, 60-62, 86-7, 88-9, 118-19; *Die Grosse Politik*, XIV, Part II, 468 ff.

³ Minute by Lansdowne on a dispatch from Constantinople received April 21, 1902, *British Documents*, II, 179.

War and the Private Investor

ventures abroad puts large foreign investors in a receptive mood for suggestions from the government. Those who control diplomacy are able to exert pressure upon bankers by intimating that if they accede to official wishes in the present instance their interests elsewhere will be much better looked after. "Big financiers are much easier to handle than little ones," says M. Joseph Caillaux, who has had considerable opportunity to observe such matters in France during a political career which included the finance portfolio and the premiership during the development of the Moroccan crisis. "The government and the big ones are in constant conversation. They may have interests in Argentina or Brazil where they need diplomatic support. It is therefore to their advantage to work with the government."¹ Aside from the question of potential diplomatic protection, the goodwill of the foreign office is often valued by bankers simply for the improved sources of information which it opens to them.²

CENSORSHIP OF CAPITAL EXPORT

So far this discussion has concerned what might be called *positive* methods of guidance and control by government over private foreign investments—that is, techniques for getting private capital into regions and enterprises abroad where the government wants it. What of the means whereby governments undertake to prevent particular investments that they find undesirable? These *negative* methods of governmental influence over private investment abroad, it may be observed, have provided a political instrument that can be used in dealing with relatively strong powers—those powers against which the penetration methods applied in "backward" countries are not effective. A second general observation regarding them is that they have been most conspicuously applied in connection with the flotation of loans to foreign governments, but not exclusively so. A brief treatment of negative methods

¹Interview with M. Caillaux, 1930.

²Interview with an American banker who says that this is the chief importance of State Department goodwill to his bank.

Private Investments and Diplomacy

of influence on foreign investment is therefore relevant to this study, though government loans as such lie outside its focus of attention. Perhaps it is unnecessary to add that the negative methods under consideration here do not include emergency controls designed to stop a "flight of capital" or to stabilize the exchanges and protect a currency system. We are interested in politically motivated influence on investors under "normal" conditions of capital export.

The government's attempt to make its disapproval of a proposed capital export effective may rest upon formal, legal, and mandatory controls over the flotation of foreign securities, or it may depend upon informal, non mandatory intimations and pressure upon those who issue foreign securities. In general, direct investments abroad have not been subjected either to formal or informal controls. That is, bankers who would consult the foreign office as a matter of course before bringing out a foreign security issue would rarely think of asking whether there were any political objections to the construction of a warehouse, the acquisition of an electrical power system, or the establishment of a commercial sales agency in a foreign country. That would be regarded as none of the government's business, unless there were very exceptional circumstances, except in a fascist country where government representatives might supervise private firms directly and both stimulate and veto particular operations abroad. It is publicly issued foreign securities, as distinguished both from securities privately placed and from direct investments, that have mainly been subject to governmental bans.¹

The formal, open censorship of foreign security issues by governmental authority was applied most vigorously in France, among the pre-war capital exporting countries. There official authorization was necessary before any foreign security could be listed on the stock exchange. Almost every loan to a foreign government, before it could be floated in the Paris market, had attached to it a history of bargaining and

¹But see the Cowdray and Tana Lake incidents described in Chapter 13.

War and the Private Investor

negotiation in which the Ministry of Finance had to be satisfied of the economic and the Ministry of Foreign Affairs of the political advantage to France in the proposed transaction. Outside of a tacit embargo on capital exports to the central powers,¹ however, there seem to have been only two instances in which security flotations for private (non-governmental) foreign enterprises were actually vetoed. Bagdad Railway bonds were excluded from the stock exchange in 1903 on account of the imperial German aims embodied in that project, and the stock of the United States Steel Corporation was denied listing privileges in 1909 because it was regarded as a direct competitor of French industries, particularly of the metallurgical and armament firms whose welfare was always an object of governmental solicitude. The German government before the war had two legal means of interposing a barrier against foreign securities of which it disapproved. It could specify, through the Reichsbank, what securities would be accepted as collateral for loans, and it could veto, through the state control of the stock exchanges, the listing of any "issues which endanger a

¹Loath to build up the political or economic power of an enemy nation, France enforced a tacit but none the less official and effective ban on German securities after 1870. No German issues, public or industrial, were admitted to trading on the Paris stock exchange, with the exception of a few industrial securities admitted during the brief period when the Fashoda incident, by threatening war with England, brought France closer to Germany. Even the direct investments of French companies in Germany and German companies in France—coal properties, branch offices, shares in steel plants, mines, etc.—were subject to excited attack in the French jingo press at every crisis in Franco-German relations. The private co-operation of French and German banks in joint undertakings abroad provided a target for vigorous patriotic denunciation by many authors. A similar but less drastic rule of financial non-intercourse was applied by France against Austria-Hungary, as the system of European alliances tightened and it became evident that to strengthen this ally of Germany was to strengthen the enemy. Austrian securities, both industrial and governmental, with few exceptions, were tacitly refused admission to the Paris stock exchange, despite the pressure of interested banks. The Paris market was held open to Hungarian issues after it had been closed to Austrian, apparently with some thought that Magyar aims might be supported toward a dissolution of the Dual Monarchy. But after the Bosnian crisis of 1908-9 even Hungarian governmental securities came under the ban, which tended to apply also to industrial and public utility issues. Russian opposition to their admission became firm and permanent. (Herbert Feis, *Europe the World's Banker: 1870-1914* [New Haven, 1930], Ch. VIII, "Nonintercourse between France and the Central Powers.")

Private Investments and Diplomacy

public interest." In actual practice these powers were very little used, and in only one case were they applied against a non-governmental foreign issue. Listing was refused for the bonds of the Chicago, Milwaukee and St. Paul Railway on the Berlin stock exchange in 1911.¹ In general, the German government preferred to proceed informally, keeping in touch with the great banking houses, not so much to restrain them as to induce them to embrace opportunities for the expansion of German political and economic interests and to guide the none too abundant German capital into channels regarded as nationally most productive. England exercised no formal control over the flotation of foreign issues in the British capital market before the war. In all these countries, of course, the war brought special restrictions, which continued well into the 1920's in the train of currency difficulties and stabilization programs. A few years after it began to appear that normal conditions had again been reached the great depression once more upset world finance and produced more emergency regulations. The United States government, until recently,² has had no statutory peace-time authority to interfere with the issue of foreign securities, and its occasional interventions for this purpose during the boom investment period culminating in 1929 were through informal means of persuasion and pressure.³

¹The official reason given was the weak condition of the German capital market and the need for conservation of its funds in the national interest, though other explanations have also been offered, including the suggestion that this was a gesture of political protest to the United States arising out of diplomatic altercations over the German potash law of 1910 and out of resentment against the high American tariff.

²The Johnson Act, passed in 1934, prohibits the flotation of securities in the United States on behalf of foreign governments in default on their obligations to the United States government. It applies only to government loans.

Under the Securities Act of 1933 foreign securities must be registered in the same way as domestic securities before they can be publicly issued; there appears to be no discretionary authority under which particular issues could be excluded from the market for, let us say, political bargaining purposes.

³For citations and additional details on the topics of this and the succeeding paragraphs see Jacob Viner, "Political Aspects of International Finance," *Journal of Business* I (April, July, 1928), 153-173, 349-363; Feis, *op. cit.*, Chs. IV, V, VI.

War and the Private Investor

The governments of all the important capital-exporting countries have at one time or another made use of informal controls apart from open application of legally authorized authority, to block the participation by their investors in particular foreign financial projects. These controls operate through private intimations to bankers, advice, persuasion, threats, friendly coöperation, pressure, in innumerable forms varying with the circumstances. They depend for their effectiveness, in so far as they are effective, upon the same ties between the rulers of politics and finance and upon the same springs of action that we have already explored, plus the additional fact that the government would in most cases be able to have considerable adverse influence on the market for any issue which would have to be widely sold, should it decide to express its disapproval openly. Inspired articles in the political and financial press are another means of informal control over capital placements, sometimes used to prevent, as well as to stimulate, investments.¹

In France it has been the regular duty of one of the higher officials of the foreign ministry to keep in touch with the international financial operations of the great banks and to make known the wishes of the government. The government's supervision over the investment market was also facilitated by its charter right to nominate the directors and inspect the transactions of the *Crédit Foncier*, which gave it an effective influence over this important bank and a number of subsidiary and associated establishments.² In Germany before the war bankers testified that issuing houses regularly consulted the Foreign Office with reference to governmental issues, though seldom or never in connection with industrial securities, and that "the faintest hint" was enough to pre-

¹The widespread and persistent attacks in France on Italy's financial reputation after Italy had renewed the Triple Alliance with Germany promoted large withdrawals of French capital. These certainly had the tacit approval of the government, if not its active encouragement. The German government, too, resorted to press campaigns. In 1913-14 it conveyed through the semi-official press the opinion that foreign loans which were not especially advantageous for economic and political reasons should be restricted to the utmost. (Feis, *op. cit.*, pp. 137-170.)

²Viner, *op. cit.*, p. 162.

Private Investments and Diplomacy

vent the flotation of a loan contrary to German political interests.¹

In England, probably due to the tradition of free trade, the habit of adjusting political and economic affairs to circumstances without the adoption of formal rules, and the relatively greater importance of non-governmental and non-European investments in British portfolios, there has been more freedom from political interference with foreign investment issues than in any other of the leading capital-exporting countries. "The government tended—as far as ordinary practice went—to treat the financial institutions as a separate independent power, rather than as a subordinate one."² There was not only no formal censorship, but no regular, established procedure for coördinating the work of the financiers with the policies of the government. But there was a great deal of informal intercourse between Downing Street and the City, made more effective by the habits and structure of British society.³ When imperial interests were felt to be at

¹M. von Brandt and Karl Helfferich in the *Bank-Archiv*, April 15, 1911, pp. 215, 221. Helfferich argued that any extension of the government's formal supervision over foreign loans, such as was then being proposed, would force it to take an open stand for or against each transaction, which would be politically more embarrassing and less useful to the government than the existing quiet control.

²Feis, *op. cit.*, p. 85. Sir Edward Grey, Secretary of State for Foreign Affairs, described this policy and the chief reason for it as follows: "British financiers run their business quite independent of politics, and, if we attempt to interfere, they naturally consider that we come under some obligation. If they do some particular thing, either in granting or withholding a loan, to oblige the Foreign Office, then, of course, we come under some obligation, and I do not think that is a desirable system. It is much better we should leave them to deal with these matters of loans. I do not say there are no cases in which loans have a political character and in which financiers come to the Foreign Office and ask if there is any objection to them. But generally speaking, and especially in South America, these are things in which the Foreign Office do not interfere." *Parliamentary Debates, House of Commons*, 5th ser. LXIV, 1448-1449.

³"In the small circles of power, financial power was united with political power, and held mainly the same ideas. Partners of the important issue houses sat in the House of Commons or among the Lords, where they were in easy touch with the Ministry. In Clubs, country week-ends, shooting parties, Sir Ernest Cassel, Lord Rothschild or Lord Revelstoke could learn the official mind and reveal their own; there was ample opportunity to discuss the wisdom or needs of the moment. The smallness of England, the concentration in the same circle of those possessing influence or prestige, the responsiveness to group opinion which ruled, the personal honesty and discretion of English officialdom, the acceptance by the financial world

War and the Private Investor

stake the government did not hesitate to exert its influence. Twice British bankers were persuaded not to participate in Bagdad Railway loans, once reluctantly in 1903 when both financiers and diplomats had to bow to the pressure of anti-German public opinion, and again in 1910 when Sir Edward Grey, upon representation from France, persuaded Sir Ernest Cassel not to put in a bid for Bagdad bonds.

The government of the United States, confronted by great capital exports in the 1920's, attempted to set up a systematic censorship over foreign flotations comparable to those of France or Germany but with no more legal basis than existed in Great Britain.¹ The first step was a conference of May 25, 1921, between several members of President Harding's cabinet and a number of investment bankers, at which the banking group was asked to keep the government informed regarding contemplated flotations of foreign bonds in the American market, "so that it might express itself regarding them if that should be requested or seem desirable." This did not obtain the desired degree of response from the bankers, and on March 3, 1922, the Department of State sent a circular letter to American investment bankers in which it repeated the request to be informed in advance of foreign bond issues, stated that it would not pass upon the merits of foreign loans as business propositions nor assume any responsibility for them, admitted that it could not require bankers to consult the Department, but concluded that "in view of the possible national interests involved" the Department "should have the opportunity of saying to the underwriters concerned, should it appear advisable to do so, that there is or is not objection to any particular issue." This has formed the basis of subsequent policy.² The practice was for the financiers in charge of a loan to write a letter to the Depart-

of a high standard of honor—all these combined to make it easier to understand the freedom left to private judgment." (Feis, *op. cit.*, p. 87.)

¹Viner, *op. cit.*, p. 170; see also George W. Edwards, "Government Control of Foreign Investments," *American Economic Review*, 18 (December, 1928), pp. 691 ff.

²U. S. Department of State, *Press Releases*, Weekly Issue No. 119, release of January 7, 1932, which quotes the 1922 announcement.

Private Investments and Diplomacy

ment (sometimes after the matter had been taken up personally or by telephone) outlining the proposed flotation and for the Department to reply, in a phraseology which became more or less standard, that "in the light of the information before it, the Department of State offers no objection to the flotation of this issue in the American market."¹ This, of course, was in case that the proposed issue met with no opposition. The State Department in passing upon loans also ascertained whether there were any objections from the Treasury or the Department of Commerce. Sometimes the reply to the banker, after stating that there was no objection to a proposed flotation, expressed the hope that such part of the proceeds of the loan as were not spent in the borrowing country might be expended in the United States, or that American firms might be afforded the freest opportunity to compete on equal terms for the work to be financed by the loan.²

The United States government did not confine itself to passing upon particular proposals when submitted, but went further than any other government toward defining in advance the circumstances under which foreign flotations would encounter its objection.³ It was intimated that official disapproval would be turned against loans to countries not making war debt settlements with the United States, loans for armament, loans to assist in monopolizing products consumed in the United States (such as a proposed coffee valorization loan to São Paulo and a proposed loan to the German potash cartel), and loans to Soviet Russia. Warnings were also issued

¹This was further supplemented: "You of course appreciate that, as pointed out in the Department's announcement of March 3, 1922, the Department of State does not pass upon the merits of foreign loans as business propositions nor assume any responsibility in connection with such transactions, also that no reference to the attitude of this Government should be made in any prospectus or otherwise."

²*Sale of Foreign Bonds or Securities in the United States*, Hearings, Committee on Finance, U. S. Senate (Washington, 1932), correspondence on pp. 959, 963-4.

³Even so, there was considerable lack of consistency between successive pronouncements on the subject and between statements issued at various times by the President, the Cabinet as a whole, the Secretary of State, and the Secretary of Commerce, leaving the bankers in some doubt as to just what was the policy to which they were desired to conform. See Viner, *op. cit.*, pp. 359 ff.

War and the Private Investor

against excessive lending to German states and municipalities, but this was in the nature of general advice related to the transfer problem and possible future difficulties in repayment; it did not lead to outright disapproval of particular loans. As in other capital-exporting countries, the official censorship was applied chiefly, though not by any means exclusively, to foreign governmental loans. It was the custom of banking houses to consult the State Department on all foreign bond issues, including bonds of corporations. On the other hand, they did not submit bank credits to the Department for approval, nor bonds not publicly floated, nor did the Department exercise censorship over acquisition of proprietary interests in foreign enterprises and other forms of direct investment abroad, nor did it pass on concessions and contracts secured by Americans in foreign countries.¹

The methods of negative control over capital exports in the various countries examined have not always been effective. While American bankers, for example, respected *pro forma* the veto against public flotations of French loans in the United States, some of them bought French bonds issued in Holland at the original underwriters' terms and distributed them privately among their clients. Others bought older French issues and then offered them publicly. American banks participated in underwriting syndicates for French loans through their foreign branches and agencies.² After the government had objected to the flotation of a São Paulo coffee valorization loan in the United States, an American investment house bought up a large share of the London issue and advertised it publicly for sale in New York. "Bankers said that the only effect of the ban on an original offering here was that American investors paid higher prices for the bonds than would otherwise have been the case."³ In France,

¹See testimony in *Sale of Foreign Bonds . . .*, hearings cited above, pp. 359, 1652, 1852, 1891-3, 1907-12, and the State Department press release of January 7, 1932, cited above.

²Viner, *op. cit.*, p. 172.

³*Ibid.*

Private Investments and Diplomacy

while the government's control over listings on the stock exchange has legally been unlimited, it has not always been able to withstand the opposition of the banks against a particular veto, while its control over private transactions has been even weaker. The Russian Ambassador, Isvolsky, complained to his home government that French financiers had more influence over the French government than did the government over the financiers, and that French bankers frequently evaded government orders by indirect means.¹ The Mendelssohn banking house in Germany informed the Russian statesman, Witte, that they had secretly subscribed to a Russian loan of 1908 through their non-German branches, in spite of the governmental veto against flotation in Germany.² Notwithstanding these evasions, however, it remains true that actual or potential restrictions over access to the capital market have been valued by statesmen as an instrument of foreign political and economic policy. Obviously, the extent to which such devices can be used to exert pressure on a would-be borrower depends upon the readiness with which vetoed loans might be floated in other markets, which in turn depends upon such things as the credit standing of the borrower and the condition of world finance at the time.

¹*Ibid.*, citing *Livre Noir*, II, 127-8.

²*Ibid.*, citing *Memoirs of Count Witte* (Garden City, 1921), p. 306.

E. FOREIGN POLITICS AND FOREIGN INVESTMENT INTERTWINED

CHAPTER II

Modern Chartered Companies

IN CONNECTION with the colonial expansion of Europe in the late nineteenth century, there appeared a brief revival of the type of organization known as the chartered company. The hallmark of these companies—also called privileged companies or sovereign companies—was their possession of authority to govern as well as to carry on commerce in territory placed under their jurisdiction. They were empowered to establish forts and police systems, to lay out roads, encourage colonization, levy duties and taxes. They were, in the words of a French commentator, veritable *compagnies de gouvernement*. Yet they were not state owned, nor were they ordinarily subsidized or guaranteed by states. Neither were they purely private commercial enterprises. Subtle lines of state control always existed in the form of personal unions between the directors of the companies and the nation's governing class; they were organized under special charters which clothed them with authority and functions foreign to the purely business corporation; they measured their success less in business terms, such as dividends to stockholders, than in terms of imperial expansion. The interest of the modern chartered companies for this study lies in the fact that they represent a unique device by which private enterprise and investments abroad were harnessed to national policy abroad in a period of colonial conquest.

Private Investments and Diplomacy

The chartered companies of the nineteenth century were primarily tools of the colonial expansionists, both of those in governmental offices and those outside. The device of the chartered company enabled the private and the official colonialists to pool their energies in a common cause, and from their standpoint it had several special advantages. First, the chartered company did not put in play such grave responsibilities as would governmental action itself, and thus it afforded a convenient screen behind which a government could pursue expansionist purposes in an exploratory, tentative way. A chartered company could engage in bold enterprises, and, if all went well, the fruits of its efforts could then be accepted officially; but if difficulties arose, such as clashes with rival colonial powers or disastrous native uprisings, the company could be disavowed. Second, the chartered company enabled impatient colonialists to escape the checks exercised by anti-colonialists in government offices and in parliament over the official operations of government. A company could engage in the headlong rush for empire while legislators debated; it was subject to no troublesome votes for appropriations. Indeed, it seems that sometimes the main service of the chartered company to the colonial cause was to circumvent the anti-expansionist elements in government and public opinion by avoiding their jurisdiction until they could be presented with accomplished facts. Third, the colonialists argued that the chartered company was a more elastic and adaptable form of organization than regular governmental agencies, therefore better able to meet the peculiar problems encountered in unorganized regions. It not only avoided the traditional restraints of bureaucracy and parliamentary control, but could enlist private capital in its service and could make use of private individuals—hunters, explorers, adventurers of all kinds—who would rarely become government officials. The fourth and final advantage of the chartered company as a method of colonial expansion, often stressed by defenders of the method in England and by its advocates in France, was its supposed

War and the Private Investor

cheapness. A company could defray part of its expenses by trading operations which would be beneath the dignity of an imperial government. The same staff could perform commercial and governmental functions in opening up a new country, with consequent economy. The prestige of a company calling for vindication by force of arms was not so great as that of a government; hence, it could afford to run greater risks, adopt bolder methods, and maintain smaller garrisons. Best of all, said the colonialists, while acquiring a magnificent empire for the nation a chartered company costs the taxpayers nothing at all.

These were all arguments advanced by those who approved of chartered companies as instruments of imperial expansion. In actual practice, some of the chartered companies did involve their governments in serious diplomatic difficulties. They were usually quite successful as devices for sidestepping parliamentary control. Some of them displayed the virtues of elasticity and adaptability, others did not; this characteristic seemed to depend more upon the men at the helm than upon the form of organization. Finally, the low-cost operations of the chartered companies often necessitated expensive military operations by their governments, and in most cases (half the English cases and all the non-English) the governments soon had to assume direct responsibility for administering and developing the regions laid open by the companies. So the charge for continuing the work begun by chartered companies fell upon the taxpayers. Some of the chartered companies also contrived to secure considerable sums from their governments as compensation for developmental work or as indemnity for the transfer of rights and titles.

BRITISH CHARTERED COMPANIES

The British chartered companies were the first and by far the most successful of all those founded during the colonial movement of the late nineteenth century. Indeed, they provided the pattern for the rather forced imitations of the method adopted by continental colonizers. The British com-

Private Investments and Diplomacy

panies were in some respects reminiscent of the famous chartered companies of earlier centuries—the East India Company, and others—but they differed in certain fundamentals, particularly in the absence of monopoly features. This difference, by the way, was not always perceived or copied by the continental imitators. The “typical” career of a modern English chartered company might be outlined in bold strokes as follows:

A small group of enterprising traders see visions of commerce and empire in territory not yet under the sway of any European power. They persuade native rulers to sign documents granting them privileges in the territory. Assisted and sometimes impelled by ardent nationalist expansionists of the type that form the membership of colonial societies—explorers, geographers, missionaries, military men, traders, promoters—they form a company. Members of the aristocracy accept places on the governing board along with the men of energy who are promoting it, and thus the enterprise acquires unquestioned respectability as a national project as well as an informal but very effective channel of communication with the government. At this point a special royal charter is requested and granted; this is done by an Order in Council without submission to parliament. The charter not only allows the company the ordinary privileges of corporate action, but confers wide powers of political administration upon it within a territorial sphere that is left intentionally vague. The government reserves certain ultimate rights of control over the company, particularly in matters that effect foreign nations or the rights of natives. The company sells its stock, not merely to those who hope for gain, but to patriotic individuals eager to feel themselves a part of a glorious and romantic national work. The company probably sets out in the genuine hope of making a pecuniary profit from commercial operations along with enlargement of the empire, but the expansionists of other nations are active in the same or adjacent territories, and in order not to be anticipated and to establish effective imperial claims over as wide an area

War and the Private Investor

as possible it hastens ahead, scattering its efforts, to the neglect of that intensive work in a restricted area which might yield profits to the stockholders. The typical chartered company does not pay dividends, and if a shareholder is so lacking in taste as to raise the dividend question at an annual meeting his attention is directed to new territory won, colonization projects carried out, increases in imports and exports, and the glory of the empire. While those who merely hold stock in the chartered company must be content for the most part with non-monetary, psychic income of this sort, the moving spirits of the enterprise, in addition to earning knighthood, may also derive handsome profits from other enterprises in the region under development—shipping, trading, mining—which are facilitated by the activities of the chartered company. Sooner or later—in half the cases quite soon, in half much later—the British government finds it desirable for various reasons to assume direct administrative responsibility for the company's territory. The company receives compensation for past services and for the abandonment of its governmental prerogatives, whereupon it reverts to the status of a private trading corporation and perhaps begins to pay dividends. The brief sketches below show how this pattern runs through the actual histories of modern British chartered companies.

THE BRITISH NORTH BORNEO COMPANY

After buying in 1877-8 a concession with full governmental powers which the American Trading Company of Borneo had earlier obtained from the Sultan of Brunei, Mr. (afterwards Sir) Alfred Dent approached the British government for a royal charter. From the first this merchant seems to have had ideas more distant and ambitious than the mere establishment of trading posts. The government hesitated, fearing possible diplomatic complications and remembering the strictures which the liberal movement of the late eighteenth and early nineteenth centuries had heaped upon the old colonial companies. Meanwhile, Mr. Dent assured himself the support of prominent colonialists and men of very honorable position, bringing into the enterprise Sir Rutherford Alcock, Admiral of the Fleet Sir Harry Keppel, Sir Thomas (later Lord)

Private Investments and Diplomacy

Brassey, Admiral R. C. Mayne, Mr. R. B. Martin, M. P., and others. In 1881 the British North Borneo Provisional Association, Ltd., was founded to take over the concession, and in November of that year the Liberal government of Gladstone granted the desired royal charter—the first in nineteenth-century England.

It is interesting that the Liberals under Gladstone and Granville should have been the ones to revive the chartered colonial company after the previous Tory government had hesitated and delayed. They took care, however, that the chief objections which the spirit of liberalism had found in the old companies were guarded against in the North Borneo charter by specific provisions for the protection of the natives and by the strict prohibition of any attempts to establish a trading monopoly. This was a significant difference, indeed, for the essence of the old charters had been monopoly. This charter became a model for the later ones. It recognized the concession obtained by the company from native rulers, granted the company full power to organize as a corporation and to carry on both commercial and governmental activities in North Borneo, and obligated it to submit all differences with the Sultan to the arbitration of the British government as well as to follow the government's suggestions with regard to relations with foreign powers. The company's principal agent in Borneo was to be nominated with the approval of the government, and the Crown reserved the right to revoke the charter upon violation of any of its provisions. The control and management of the company were always to remain in the hands of British citizens, and the concessions were not to be transferred without the consent of the government.¹

The government doubtless granted the charter in the consciousness that it would be an indirect means of bringing North Borneo under the British flag, though it could not say so openly owing to the susceptibility of foreign nations and the "little Englanders" at home. The step was taken despite diplomatic protests from Holland and Spain. Lord Granville, defending the government's policy in the House of Lords, said that when application was made for a charter three possible courses were open: the government could annex this vast territory, it could allow Mr. Dent and his associates to undertake the administration, or it could leave North Borneo to the inevitable absorption of foreign nations. There were grave objections to the first and third solutions which did not apply to the second.²

The authorized capital of the company was two million pounds,

¹*British and Foreign State Papers* 73 (1881-2), 359 ff.

²*Hansard's Parliamentary Debates*, 3rd series, Vol. 267, p. 713 (March 13, 1882).

War and the Private Investor

of which £383,000 was issued at once. Those who took the shares were not ordinary profit-seekers, however. If any of them were, they must have been unhappy, for a French commentator writing in 1898 (ten years after the territory had become a British protectorate and seventeen years after the founding of the company) observed that the stockholders "hardly know the satisfaction of drawing dividends."¹ The founders of this and of other chartered companies "engaged their names and their capital less in the certainty of financial success than in the hope of making the enterprises serve as a powerful national interest."² Indeed, the company undertook no commercial operations on a large scale itself but confined itself to the administrative and governmental sphere. It encouraged the entrance of other capital, and derived most of its revenue from the sale of land and concessions. The fruits of its policy showed not in dividends, but in the growing import and export figures of North Borneo as a whole. The hopes of the founders on the political side were realized in 1888 when the territory of the company became a British protectorate. Its actual administration, however, remains to this day in the hands of the British North Borneo Company, the Crown reserving only control over foreign relations and the right to approve the appointment of governors.³ This is the only one of the nineteenth-century chartered companies which has survived in its character as a "*compagnie de gouvernement*."

THE ROYAL NIGER COMPANY

In 1877 a former captain in the Royal Artillery, George Goldie Taubman (later Sir George Taubman Goldie) visited the then little known region of the Niger in West Africa. He had invested some of a small fortune in one of the trading companies on the river, and with persistence, tact, and business acumen soon amalgamated a number of small firms into the United African Company. The enterprise prospered exceedingly, but its directing spirit sought much more than business success. His aim from the first had been to add new territory to the British Empire. In 1881 he applied for a royal charter, but the government raised various objections, among them the low capitalization of the company and the possibility of difficulties with foreign states whose nationals also had

¹Carton de Wiart, *Les grandes compagnies coloniales anglaises au 19^e siècle* (Paris, 1899), p. 47.

²*Ibid.*, p. 12.

³*Encyclopædia Britannica* (14th edition, 1929), III, 915; *Statesman's Yearbook*, 1934.

Private Investments and Diplomacy

trading posts in the region. Partly to meet these objections, the company was reorganized in 1882 into the National African Company and its capital raised from £125,000 to \$1,000,000. A titled member of the aristocracy was persuaded by the founder to become its nominal head. The government still hesitated. Meanwhile, rival French companies had become active in the Niger valley, encouraged by Premier Gambetta. The National African Company proceeded aggressively against this political and commercial competition and forced the French to sell out by cutting prices one-fourth in all the localities where they had trading posts. At the Berlin Conference of 1884-5 the British representative was able to state that Great Britain alone possessed trading interests on the lower Niger. Immediately, however, a new menace appeared, for the German explorer Flegel was dispatched from Berlin in 1885 by the German Colonial Society to make treaties with the rulers of the rich, fertile, and populous kingdoms reputed to exist north of the British sphere. The National African Company got wind of the project and sent one of its agents, Joseph Thomson, to steal a march on the Germans. He did his work in the nick of time, and, returning down the river with treaties bearing the X marks of the native sultans, met Flegel's canoes coming up.¹

In 1885 Great Britain declared a formal protectorate over a small coastal area in Nigeria, and the next year the National African Company received its coveted charter from the Queen, becoming the Royal Niger Company.² Lower Nigeria had been won for Britain, but the contest in the vast interior was only beginning. French "scientific expeditions" and military missions, as well as German "explorers" pushing into the interior of what is now northern Nigeria time and again found their territorial ambitions frustrated by the company's agents, who are said to have made more than four hundred treaties with native chiefs. The restless energy of the Royal Niger Company's political activities under Sir George Goldie bore fruit in the very favorable territorial agreements which

¹Parker T. Moon, *Imperialism and World Politics* (New York, 1927), pp. 98 ff.; Charles Henry Robinson, *Nigeria, Our Latest Protectorate* (London, 1900); Emile Baillaud, "La Compagnie Royale du Niger," *Annales des Sciences Politiques*, XII (July, 1898), 494; Carton de Wiart, *op. cit.*, pp. 49 ff.; J. Darcy, *Cent années de rivalité coloniale* (Paris, 1904), pp. 235-40.

²The charter itself did not differ in essentials from that of the North Borneo Company. The company was authorized to conduct both commercial and governmental activities; commercial monopoly was prohibited; control was to remain British; the government might intervene on matters of policy, especially where foreign nations or rights of natives were concerned, and might revoke the charter. The territorial sphere of the company was purposely vague and flexible. *British and Foreign State Papers* 72 (1885-6), 1022 ff.

War and the Private Investor

Great Britain was able to make in subsequent negotiations with France and Germany.

The Royal Niger Company was the only one of the modern British chartered companies which proved a paying investment for its stockholders. It declared regular yearly dividends of 6 and 6½ per cent. In 1900 it reverted to the status of a private company when the government assumed an official protectorate over northern and southern Nigeria. The government paid the company £865,000 in settlement and took over its political functions.¹

THE IMPERIAL BRITISH EAST AFRICA COMPANY

As early as 1877, the Sultan of Zanzibar had offered to Sir William Mackinnon, Chairman of the British Steam Navigation Company, a seventy-year lease of the customs and administration of his extensive domain on the east African coast, but the British Foreign Office was unwilling at that time to promise the support which Sir William deemed necessary, and negotiations were dropped. By the middle of the 1880's, however, the tales of explorers, merchants, and missionaries had roused the interest of Europe, and the scramble for Africa, which resulted in virtually complete partition of the continent within ten years, was getting under way. The British were particularly disturbed about 1884-5 by the energetic pretensions of an impetuous young German, Dr. Karl Peters, who had founded a company for German Colonization and was rapidly staking out an empire in East Africa with increasing support from his government. Negotiations with Bismarck led to an Anglo-German agreement of 1886 which delimited the zones of English and German influence, but the ultimate possession of many square miles coveted by imperialists on both sides was likely to depend in part upon effective occupation. Especially was this true of the fertile interior kingdom of Uganda, whose possession became an acute question in 1890. Under these circumstances the British government looked with favor upon a resumption of Sir William Mackinnon's negotiations with the Sultan of Zanzibar, and these resulted on May 24, 1887, in a concession to a group of prominent capitalists organized under the name of the British East Africa Association. This group was shortly thereafter incorporated by royal charter as the Imperial British East Africa Company (September 3, 1888). It became the instrument of penetration which helped to establish British claims to the Sultan's domains along the littoral, to the hinterland beyond, and to Uganda.

The charter itself did not differ in essential respects from those

¹*Encyclopædia Britannica* (14th edition, 1929), XVI, 442.

Private Investments and Diplomacy

of the companies already reviewed.¹ On account of the pressure of rapidly moving events in Africa, however, the East Africa Company found its policies dictated to an unusual extent by "imperial interests," sometimes brought to its attention by direct intimations from the government, sometimes by its own interpretation of duty to the nation or by the demands of "public opinion"—which it also knew how to inspire on occasion.² First of all, it extended its original plans to include operations on the island of Lamu, because the Germans seemed about to establish themselves there. Then it sent expensive expeditions into the interior of far-off Uganda to save that region from the aggressive Dr. Peters. In this instance, says the company's historian, "Her Majesty's Government very clearly intimated that they looked to the Company to assert and maintain British rights in Africa, which were represented to depend on effective occupation."³ These activities prevented practical work calculated to bring the shareholders a return on their capital, but the motives which had inspired the founders of the company had not by any means been purely commercial.⁴

Once Uganda had been secured for Britain, however, by the Anglo-German treaty of July 1, 1890, the patriotic directors of the British East Africa Company showed themselves not at all averse to claiming compensation from the government for their services. A cleverly managed propaganda for a subsidy was pressed in letters to the newspapers, books, articles, editorials, and the arguments were clothed with all the humanitarian, religious, and patriotic adornments of imperialist sentiment. Could the company rightfully be expected to bear expenses incurred for essentially national purposes? it was asked. The implicit assumption was that the expansionists at the head of the company and in the government were better interpreters of national wishes than parliament, for it was admitted that the cost of the Uganda expedition "was an item

¹*British and Foreign State Papers* 79 (1887-8), 641 ff.

²Cf. Leonard Woolf, *Empire and Commerce in Africa* (London, undated [1919?]), Ch. VI.

³P. L. McDermott, *British East Africa . . . ; A History of the Formation and Work of the Imperial British East Africa Company, Compiled with the Authority of the Directors from Official Documents and the Records of the Company* (London, 1893), p. 114.

⁴There was "a considerable infusion of philanthropic and patriotic feeling" in the undertaking, says its historian, and "conceptions and obligations of a higher character" than business considerations frequently influenced the Court of Directors. Lord Salisbury said of the company that "It would hardly be just to describe it as a purely commercial body, for it is notorious that the majority of, if not all, the subscribers, are actuated rather by philanthropic motives than by the expectation of receiving any adequate returns for their outlay." (*Ibid.*, pp. 106-9, 179.)

War and the Private Investor

which the government themselves would have hesitated to put to a vote in the House of Commons.”¹

The first proposal was that the government should at least guarantee the interest on the capital necessary for a railway to the interior, since a railway would provide an effective means of combating the slave trade. Salisbury publicly urged this argument, but the government hesitated to ask for the approval of parliament. It finally requested parliament to vote merely a small sum for a preliminary survey, but even this had to be postponed, due to the opposition of the Liberals. The company then agreed to go ahead with the survey, on the government’s pledge to re-introduce the bill and reimburse the company later. “Had the survey been postponed for another year, the difficulty of getting Parliament to commit itself to the policy which the railway represented would have been much increased. The pledge upon which the company was induced to advance the expenses of the expedition involved an obligation which the House of Commons could not repudiate.”²

Meanwhile, the company had threatened to withdraw altogether from Uganda, pointing out that distant outposts were an unproductive burden on its resources. This was a powerful threat, for there had been a series of bitter three-cornered wars in that region among the followers of the English protestant missionaries, those of the French Catholic missionaries, and the Mohammedans, and only with the arrival of the British East Africa Company’s force under Captain Lugard in 1890 had the British brand of Christianity triumphed. Now it was justifiably feared that should the company withdraw its troops the English missionaries and their converts might be slaughtered. Furthermore, such a withdrawal would lower the prestige of the British name and be nothing short of a national calamity—in the opinion of the *London Times*. “. . . Having put our hands to the plough, if only through the agency of a chartered company, we are bound in honour not to turn back.”³ The Church Missionary Society, whose treasurer also happened to be a director of the Imperial British East Africa Company, came forward and advanced several thousand pounds to the company to postpone its evacuation of Uganda for a year—a clever propaganda stroke, for though the wealthy directors could easily have raised this sum themselves the Church contribution presented the issue as one of religion and altruism.⁴

¹*Op. cit.*, p 114.

²*Ibid.*, pp. 190–191.

³Leading article, September 28, 1891, quoted in *ibid.*, p. 200.

⁴Woolf, *op. cit.*, p. 295.

Private Investments and Diplomacy

Though the new ministry which shortly came into office was opposed to the railway subsidy which the company demanded, public opinion made it difficult for them to refuse support. The government finally paid the cost of postponing the withdrawal from Uganda until March 31, 1893, and meanwhile sent a commissioner to investigate and report on the best means of dealing with that region. He reported that "the history of British East Africa for the last five years, and its present condition, show us clearly that the experiment of combining administration and trade in the same hands has proved a failure, so far as this part of Africa is concerned; and that the sooner this system is discontinued the better it will be for native races, for British commerce, for Zanzibar, and, as I believe, for the Company itself."¹ After much haggling over the price, the British government in 1895 bought out the British East Africa Company, which thus ceased to exist after six years of activity. It had been a useful instrument of conquest, but as an administrator its record was bad, and if the stockholders got any return on their money it was at the expense of the government.

THE BRITISH SOUTH AFRICA COMPANY

The British South Africa Company, most famous of the modern chartered companies and often referred to merely as "The Chartered" was the creation of Cecil Rhodes, who came to South Africa as an impecunious youth and rose to fortune and power with the diamond and gold industries. Like other chartered companies, this one began with certain concessions obtained from a native sovereign—specifically, mining rights granted by Lobengula to Rhodes and his associates over the whole of what is now southern Rhodesia. Rhodes came to London in 1889 and bought out other groups that had conflicting claims, then approached the government with an elaborate scheme for the development and government of Bechuanaland, Matabeleland and Mashonaland, for the extension of railways and telegraphs to the Zambesi, for the encouragement of colonization and trade, as well as for the exploitation of the mineral concessions. He petitioned for recognition and moral support in the form of a Royal Charter, which would also authorize the necessary administrative measures to preserve law and order in the territory to be developed. Lord Knutsford in the Colonial Office was soon won over; there could be little harm in letting Rhodes and his company go ahead, shouldering all the responsibility and risk of claiming for England a country which might be a valuable addi-

¹*Ibid.*, p. 300.

War and the Private Investor

tion to the Empire.¹ Lord Salisbury in the Foreign Office felt that such far-reaching objects properly fell within the province of the government, but, being convinced that the House of Commons would not vote money for such purposes, gave his blessing to Rhodes' project.²

Rhodes and his associates were asked to draft a charter. It was also intimated to them privately that it would be advisable to include in their plan of organization directoral posts for men of social and political prestige who would command more respect in England than the promoters themselves, who were mainly connected with South African affairs. Acting on the hint, Rhodes persuaded the Duke of Abercorn, one of the noblest peers of the realm, to become Chairman of the Company, and the Duke of Fife, son-in-law of the Prince of Wales, was given a place on the Board. Then Rhodes, with his "sure instinct of finding the key log in a jam," sought out Albert Grey (subsequently Earl Grey and Governor-General of Canada), who as a member of the South Africa Committee had been one of Rhodes' keenest opponents, and by patient argument entirely won him over, making him, too, a member of the Board.³ The charter, indeed, provided that these three should be directors for life. Thus, personal interlocking of the company with the governing class as well as formal, legal provisions in the charter, made certain that adequate account would be taken of imperial interests, and the popular appeal of the whole undertaking was greatly enhanced.

The charter itself did not differ essentially from those that had gone before.⁴ There was the same recognition of concessions already obtained and power to seek new ones, the same grant of general administrative powers, the same reservation by the government of the right to intervene in the Company's affairs, especially as they related to native populations or foreign states, the same vagueness with respect to territorial boundaries (there was no limit specified on the north, where it was hoped expansion would go as far as possible), the same prohibition of monopoly, the same safeguards designed to maintain the British character of the Company.

Both praise and blame have been heaped upon the British South Africa Company for its rapid northward sweep, to the accompani-

¹J. G. McDonald, *Rhodes* (New York, 1928), p. 112; Sir Lewis Michell, *Life of the Rt. Hon. Cecil John Rhodes* (London, 1910), p. 266.

²Basil Williams, *Cecil Rhodes* (London, 1921), p. 135.

³Williams, *op. cit.*, pp. 135-6; McDonald, *op. cit.*, p. 112.

⁴Text in John H. Harris, *The Chartered Millions* (London, undated [1920]), Appendix; or *British and Foreign State Papers*, 81 (1888-9), 617 ff.

Private Investments and Diplomacy

ment of clashes with the Portuguese, war against the Matabeles in 1893, and a native rebellion in 1896.¹ The Jameson Raid, described in Chapter 7, was carried out with the Company's troops. The British South Africa Company served first and foremost the aims of those who believed in imperial expansion; its commercial projects were subordinated to the quest for empire. Indeed, though organized as a commercial company, it did not pay a single dividend during the first thirty-three years of its existence—that is, so long as it remained a sovereign chartered company. Nevertheless, it had no difficulty getting subscribers, either at first or in repeated new issues by which it increased its capital.² Rhodes issued its stock in one pound shares, and thousands of citizens in all walks of life were proud to participate in the romantic and patriotic enterprise with which he had succeeded in firing their imaginations. Many, of course, were drawn in by the lure of gold associated with South African development, but others owned a share or two merely in order to have the privilege of attending the annual stockholders' assembly. These meetings, held in one of the largest halls in London, served Rhodes as a platform from which he spread his gospel of British expansion, and there was much more interest in Rhodes himself and the progress of his imperial dreams than in the balance sheet of the company.

The British South Africa Company continued its administrative duties in Southern Rhodesia until 1923, when that province became a self-governing colony. The following year the Company's territories north of the Zambesi were given the status of Crown protectorates. At the same time, the Imperial Government refunded to the Company a portion of the expenditures which it had incurred in discharging the obligations of its charter, and the government of Southern Rhodesia assumed its share of the burden as a public debt. The South Africa Company was also allowed to retain land it had appropriated for agricultural and ranching purposes and to hold title to extensive land concessions in Northern Rhodesia and Nyasaland. It also retained its original mineral rights, covering the whole of Rhodesia, north and south, and a majority interest in the railway system. With the relinquishment of its governmental functions and the payment made to it, the Chartered Company was able to refund 5s. on every £1 share (25 per cent), and commenced to pay regular dividends.³

¹For details, see Harris, *op. cit.*

²Bertha M. Rightmire, "The British South Africa Company and Its Administration of Southern Rhodesia" (M. A. Thesis, University of Chicago, 1921, in Mss.), pp. 84 ff.

³*Encyclopædia Britannica* (14th edition, 1929), IV, 203.

War and the Private Investor

GERMAN CHARTERED COMPANIES

For years, in his public expressions, at least, Bismarck opposed all colonial expansion abroad, but when in the 1880's he finally turned to a program of overseas colonization for Germany it was the method of colonization by chartered company that he proposed to use. It has been called an English characteristic to construct a policy after the fact and a German to formulate an abstract theory as a guide to practice. This was the case with regard to the revival of chartered companies as tools of colonization. For while England slipped into their use undesignedly as a response to particular circumstances when they arose, Bismarck in Germany consciously set out to construct a colonial policy around them. He did not wish to establish "hothouse colonies" like those of the French—imperial provinces conquered by military columns, demanding garrisons and troops—but to protect developments which German commerce might make on its own initiative. "The flag follows trade" and "First the trader, then the soldier" were his colonial slogans. Chartered companies on the English model appealed to him as an admirable device for stimulating and administering a colonial expansion consistent with this policy. Furthermore, he hoped through the chartered companies to avoid governmental responsibility in the new possessions so far as possible, because colonial frictions with other powers might endanger his carefully built system of alliances, because of the weakness of the German navy, and because of the expenses to which direct colonial administration would commit an unwilling Reichstag.¹

In no case did the chartered company policy work out according to plan. Only two companies actually undertook to exercise sovereign rights, and their activities did not avoid implicating the government in friction and expense. Several other companies could not even be persuaded to accept a

¹Mary E. Townsend, *The Rise and Fall of Germany's Colonial Empire, 1884-1918* (New York, 1930), Chs. IV, V.

Private Investments and Diplomacy

charter. Bismarck's imitation of what had appeared in England as a spontaneous development seemed artificial and forced.

THE GERMAN EAST AFRICAN COMPANY

German merchants had built up a considerable trade with East Africa, but it remained for Karl Peters, the "impetuous and erratic son of a mild Saxony pastor," to win part of it for the empire. He had become enthused with the romance of imperial expansion on a long visit to England, and returning home in 1883 he sought support for one colonial venture after another, from founding a settlement in Brazil to helping the Boers against England, until he finally settled on East Africa. The patriotic occasion of the Kaiser's birthday, March 28, 1884, was chosen for the founding of a new organization known as the Society for German Colonization, and financed by this society Peters and a group of kindred spirits set sail for East Africa in the autumn of 1884.¹

They were out to anticipate the English and travelled in all the glamour of aliases, disguised as workmen. A few weeks on the coast, a few days in the interior, and Peters returned to Berlin, pockets bulging with "treaties" obtained from native chiefs in the usual way—a few trinkets and liberal applications of grog, marks on the dotted line, and a ceremonious salute to a flag these people had never seen before. In Berlin Peters laid siege to Bismarck for a charter of protection (*Schutzbrief*) which the Chancellor, always cautious, at first refused. But when Peters threatened to carry his treaties to King Leopold for the benefit of the Congo Association, Bismarck suddenly about-faced and issued the charter on February 27, 1885.

This charter was extremely brief and differed from the nineteenth-century British charters in essential particulars. Indeed, it was more like the charters of the old colonial companies in that it did not prohibit trade monopoly and laid no obligations upon the company in return for its privileges. It conferred on the Society for German Colonization, soon renamed the German East African Company, "all sovereign rights over the territory acquired by the company, jurisdiction over the natives and other inhabitants," on the one proviso that it remain German.²

¹This account is based mainly on Miss Townsend's excellent work, cited above, Ch. V.

²*Ibid.*, p. 134; text translated in *British and Foreign State Papers* 77 (1885-6), 10-11.

War and the Private Investor

Immediately upon the receipt of its charter the East African Company embarked upon no less than eleven expeditions. These brought it into direct collision with England and France as well as with the Sultan of Zanzibar, whose protests led Bismarck to dispatch a squadron of warships to the scene. International negotiations in 1886 delimited the German and British spheres of influence and established Germany as an East African power, but left many areas of rivalry unsettled. Karl Peters, yearning for more excitement than prosaic problems of administration seemed to offer, set out for the vast unexplored interior, the upper Nile region and Uganda. In a series of irresponsible exploits he and his aides alarmed the English by concluding a treaty with the native king of Uganda, invaded the French sphere of influence in Madagascar, and trespassed on Italian preserves in Somaliland—all in the dream of creating a German "India" in Africa. The East African Company's agents were seriously threatening the friendly relations with England which Bismarck had just succeeded in reestablishing, so again and again the Chancellor disavowed all official responsibility for their adventures. He absolutely ignored the treaties made by Peters in Uganda, Somaliland, and Madagascar.

To add to the difficulties created for the German government by the East African Company, it proved too weak to deal with native insurrections in its domains. In September, 1888, a serious revolt broke out, the company sought the assistance of the government, and Bismarck found himself, against his will, obliged to intervene. German ships, men, and gold had to be poured into East Africa to quell the revolt. Maladministration and the conquistador behavior on the part of adventurers like Peters continued to bring the rule of the company into bad repute. The Anglo-German agreement of 1890 dealt a heavy blow to its ambitions by ceding to England districts in Witu, Uganda, and Nyasaland where the company's agents had been most active. The area left to Germany, however, was a very large one, twice the size of the home country, and potentially rich. But the East African Company was too weak financially and politically to develop these vast regions. It had to relinquish its sovereign rights, having failed utterly to fulfill Bismarck's hopes for his colonial program, and on January 1, 1891, its territory passed under the direct administration of the German empire.

Like other chartered companies, so long as the German East African Company retained its sovereign rights its activities were more absorbed by its political functions than by a search for commercial profit. Indeed, "it seemed to be true that the capitalists who consented to underwrite the first shares of the company were

Private Investments and Diplomacy

motivated much more by patriotism than by the spirit of gain.”¹ After abandoning its sovereign powers the company became an ordinary commercial enterprise, and, with the aid of a generous annual indemnity which its settlement with the German government had provided, it was able to retrieve some of its early losses and paid its first dividend in 1901. As a private commercial company it did much to develop East Africa, opening up the territory by means of roads, railroads, telegraph lines, and steamship services.²

THE NEW GUINEA COMPANY

Colonial interests in the South Seas were actively fostered by the German government in the 1880's, as we have had occasion to observe in connection with the history of Samoa and Bismarck's attempt to get a subsidy for the successor of the Godeffroy firm.³ The Pacific islands were not only of obvious economic value, but—and this was a weighty reason—they were strategically important as coaling stations and naval bases. In May, 1884, a syndicate of Berlin bankers, headed by a close associate of Bismarck's, von Hanseemann, and secretly supported by the Chancellor, founded the New Guinea Colonial Company for the purpose of occupying the unclaimed northern portion of New Guinea. An explorer, Dr. Finsch, was soon dispatched to further this aim and with two warships in the background planted a number of German flags about the island. On May 17, 1885, the New Guinea Company received an Imperial Charter from the government, having combined in the meantime with the *Deutsche-See-Handels-Gesellschaft* (Godeffroy successor) and the firm of Robertson and Hernsheim, which had also been active in the South Seas trade.⁴

The charter of the New Guinea Company, like that of the East African Company, granted monopolistic privileges:—"the exclusive right of taking possession of and of disposing of the unclaimed lands, and of concluding with the natives contracts relative to the soil and the right of property." Its sovereign powers were somewhat more specifically defined than those that had been given to the East African Company, however, and the right to make the laws which

¹Pierre Decharme, *Compagnies et sociétés coloniales allemandes* (Paris, 1903), p. 131.

²*Ibid.*, p. 135; Townsend, *op. cit.*, p. 141.

³Chapter 5.

⁴Townsend, *op. cit.*, pp. 145 ff.

War and the Private Investor

should apply to natives and other inhabitants, as distinct from administration, was reserved to the imperial government. The charters of both companies were qualified further by a statute passed on April 16, 1886, which reserved to the Emperor the right to promulgate laws applicable to their territories, to conduct all foreign affairs, and to organize and command all the military forces in the protectorates.

The New Guinea Company failed to realize the hopes of Bismarck. It suffered both from an overly-centralized control by the "gentlemen of the green table"—bankers and speculators—who directed its affairs from Berlin, and from corruption and ignorance among its officials. A veritable anarchy in its local administration reflected this weakness at the center. The company's agents failed to interest themselves in the country and its potentialities, and there was a tremendous turnover in personnel, as many as seventy-seven officials changing in one year. In 1889 the company sought to separate its economic from its political activities by creating a subsidiary for the cultivation of coffee and cocoa. But all sorts of misfortunes beset its development program: drouths and floods, fever and shipwreck. Discouraged by these poor results, the company surrendered its administrative duties to imperial officials for three years, beginning in 1889, but retained its other privileges. In 1892 it resumed its full rights, but rapidly ran into debt and was unable to raise additional capital. At the end of its resources, it asked the government in 1895 to relieve it altogether of its charter, a request refused at first by the Reichstag, but finally granted in 1899. It received an indemnity of 4,000,000 marks from the empire, which it agreed to invest in plantations. Unlike the East African Company, it failed even as a private enterprise to do any substantial work in the protectorate.¹

OTHER COMPANIES REFUSE CHARTERS

The firm of Robertson and Hensheim carried on trade in the Marshall Islands, and in 1878 made a treaty with a native chief which secured Jaluit as a coaling station for the German government. In 1886 the government extended its protection to the Marshall Islands and neighboring groups, offering a charter at the same time to the firm, which refused on the ground that it lacked the necessary ships, money, and soldiers to undertake control of the islands. Finally, in 1887, after urging from the government, Robertson and Hensheim united with a branch of the Deutsche-See-

¹*Op. cit.*, pp. 149-50. See also, Alfred Zimmermann, *Geschichte der Deutschen Kolonial-politik* (Berlin, 1914), pp. 94 ff., 221 ff.

Private Investments and Diplomacy

Handels-Gesellschaft to form the Jaluit Company, which agreed to support the imperial officials in the islands in return for the possession of all unclaimed land, the monopoly of the guano and pearl industries, and the right to be consulted about the laws. The Jaluit Company thus acquired privileges, but never received a charter or exercised sovereign powers.¹

The German Southwest African Company was formed to save the ventures of the pioneer merchant, Lüderitz, who had been accorded imperial support for the acquisition of a harbor and territory at Angra Pequena in 1883-4. The economic developments which Lüderitz had planned failed to pay returns, and he was all but ready to sell out to an English company, and might have done so, had it not been for the efforts of the friends of colonization at home, such as the bankers Bleichröder and Hansemann and, above all, the Chancellor himself. The German Southwest African Company took over his holdings, added some more, and sent out three exploring expeditions whose reports were discouraging. The nature of the country was such as to demand large sums of capital for its development, and these were not forthcoming from skeptical investors at home. "By the end of the first year the company had lost 45,159M., and found itself financially unable to support a government of any kind, to explore the interior, or to control the natives. For this reason, it continually refused to accept the charter conveying sovereign rights, with which Bismarck offered again and again to invest it, according to his cherished plan. Indeed, instead of a charter, the Chancellor was obliged, against his will, to send in 1886 an imperial commissioner, Dr. Goering, to take charge of the interior, since the company was only pretending to function on the coast." In 1888 the company sank to the position of a privileged commercial enterprise with monopoly rights over certain mining districts and lands, Dr. Goering extended his administration over the entire protectorate, and what little political rule the company had exercised ceased altogether.²

Further up the west coast of Africa in Togoland and Cameroon the policy of colonization by chartered companies was even less successful. There the private German trading companies refused to incur any responsibility whatever for administration or exploration, and these two provinces had to be ruled from the outset by an imperial commissioner.

¹Townsend, *op. cit.*, p. 151. The text of the contract with the German government is found in Decharme, *op. cit.*, Appendix X.

²Townsend, *op. cit.*, pp. 129-30, citing L. Sander, *Geschichte der deutschen Süd-West Afrika Kolonialgesellschaft* (Berlin, 1912).

War and the Private Investor

FRENCH CHARTERED COMPANIES AND OTHERS

In France, as in Germany, the example of successful territorial acquisition by English chartered companies fired colonial enthusiasts with a desire for emulation. The question was discussed in France all during the 1890's in organs like the *Bulletin of the Comité de l'Afrique Française* and in a flood of private and semi-official studies and reports on the old chartered companies or their recent English successors. In France, as in Germany, those who desired colonial expansion saw in the chartered company an enticing instrument for their purposes, but even less in France than in Germany, and less in both countries than in England, were there adventuresome and independent empire builders ready to proceed on their own initiative to present the government with new commercial and political territories. The chartered company theory was deduced *a priori* from the basic desire for imperial aggrandizement, but by 1899 when the decision was finally reached to use chartered companies the French colonial sphere had already been quite definitely marked out. The concessionnaire companies subsequently established became, therefore, devices for the development and exploitation of colonies already acquired for France by her explorers and her military men, and not means of further expansion. They were not pioneers like the English companies, but were given well-defined concessions. Again, unlike the English companies, they were endowed with monopoly rights, and they set out to make profit, not to extend the imperial sway of France. Some, indeed, seemed more interested in making profits from the French government by what would be called in the vernacular an "indemnity racket" than in undertaking sound development work. The difference in spirit of the British and French companies is apparent if one tries to imagine the British South Africa Company claiming payment from the British government on the ground that the government had failed to keep foreign traders from trespassing on its domain! This is not the place, however, to go

Private Investments and Diplomacy

into the lamentable failure registered by the policy of colonial development through concessionnaire companies in the French African colonies. The short-sighted money-grabbing policies of the concessionnaires led to ruthless exploitation rather than long-run development, to mistreatment of the native population which made a public scandal in France after 1906 when it was exposed, to complications with foreign nations over the exclusion of outside traders, and, on the whole, the companies themselves did not even make profits. These problems pertained, however, to French colonial administration rather than to international politics.¹

The Belgian King Leopold's Independent Association of the Congo which marked the beginning of the nineteenth-century scramble for Africa, was, itself, an enterprise similar to the chartered companies of old, though it had an independent existence rather than a charter and was soon recognized internationally by the Berlin Congress of 1885 as a state. Established originally as a humanitarian and scientific enterprise with the announced object of opening the Dark Continent to the benefits of European civilization, it passed about 1890 into a new phase and became an irresponsible instrument for extortion of profits on rubber and ivory to the benefit of Leopold and the financiers associated with him. News of atrocities reaching the outside world aroused humanitarians, led to diplomatic protests from government signatories to the Berlin Act, and eventually to the intervention of the Belgian parliament, which made the hitherto personal enterprise of King Leopold a Belgian colony.²

Such agencies of penetration as the South Manchurian Railway Company, the Chinese Eastern Railway, and the Oriental Development Company which have figured in the history of the Far East are akin to the chartered companies in that they have exercised rights of administration quasi-governmental in nature. In each of the companies mentioned, however, the governmental participation and control was

¹Consult S. H. Roberts, *History of French Colonial Policy* (London, 1929).

²See also Chapter 14.

War and the Private Investor

more direct and formal than in the case of the typical chartered companies. European observers have sometimes classed the United Fruit Company with the great chartered companies of the past and their successors of the late nineteenth century. It is true that the United Fruit Company has built towns, railways, hospitals, created and deposed governments, ruled vast plantations with a free hand, and in some cases exercised almost sovereign powers over large portions of Central America. Yet it has always differed in two decisive respects from the chartered companies discussed in this chapter: it has never possessed a special grant of governmental authority, and it has not sought to acquire territory for an empire. Its operations have been wholly directed to profit-making, whereas with the chartered company of the nineteenth century commerce was secondary, and imperial aggrandizement came first.

CHAPTER 12

The Conquest of Tunis

ON MAY 12, 1881, the Bey of Tunis yielded to the overpowering force of a French military expedition and at his Bardo Palace signed a treaty which made Tunis a protectorate of France. Although the ostensible occasion for military intervention had been the unruly activities of certain desert tribes, the Kroumirs, who raided from Tunisian territory across into the French colony of Algeria, the official French Yellow Book, published by the Ministry of Foreign Affairs in 1881,¹ showed that diplomatic correspondence over Tunis had concerned such economic matters as railway and harbor concessions, the right to construct telegraph and cable lines, land titles claimed by Frenchmen, and banking projects. Indeed, Clemenceau and other members of the opposition in the Chamber of Deputies charged that the Tunisian episode was a "coup de bourse" (stock exchange maneuver) and demanded a parliamentary inquiry, while editor Henri Rochefort of *L'Intransigeant* led the radical press in a vitriolic campaign against the government, ridiculing the "Kroumir hunt" and offering to prove that the real instigators of the intervention were the bankers, investors, and politicians who had speculated in Tunisian funds or who desired concessions and economic favors in Tunis. These attacks became so violent and specific that the government (Jules Ferry, Prime

¹*Livre Jaune, Affaires de Tunisie, 1870-1881* (Paris: Imprimerie Nationale, 1881).

War and the Private Investor

Minister; Barthélemy Saint-Hilaire, Minister of Foreign Affairs) felt constrained to defend itself by having the French consul at Tunis, M. Roustan, enter suit for libel against Henri Rochefort. The trial was the sensation of the day, for not Rochefort but the policy of France was said to be at the bar. The witnesses were past and present ministers, diplomats and financiers.¹ When Rochefort was acquitted, he and his associates hailed the verdict as a vindication of their charges, while the English and Italian press enjoyed the chagrin of the French government.

Thus, there seemed to be ample evidence to justify this conclusion contained in one of the most brilliant studies of economic imperialism: "A French army conquered Tunis because a comparatively few Frenchmen believed that the power of the French state should be used to promote the economic interests of Frenchmen in Tunis."² Yet reëxamination of the question, especially in the light of evidence that became available in 1930-31 with the publication of the relevant French diplomatic documents,³ raises serious doubts as to whether it may not be putting the cart before the horse to ascribe the conquest of Tunis to the direct influence of private economic interests on policy. Were not the private investors and speculators in this instance rather tools of political policy than its instigators? Probably the truest interpretation would be that they were both: they served as instruments of diplomacy, and in so doing they urged diplomacy forward. In most actual cases where investments have figured in political friction there has been an intertwining of private economic interests with non-economic political considerations of power, glory, and prestige. It is to em-

¹Day-by-day reports of the trial in *L'Intransigeant* and in *Le Temps*, December, 1881.

²Leonard Woolf, *Empire and Commerce in Africa* (London, undated [1919?]), p. 114.

³France, *Ministère des Affaires Étrangères*, Commission de Publication des Documents Relatifs aux Origines de la Guerre de 1914, *Documents Diplomatiques Français, 1871-1914*. (Paris: Imprimerie Nationale, 1929 ff.) I^{re} Série, I, II and III, especially the last two. These will be cited henceforth as *Doc. Dip. Fr.* I, II, and III.

Private Investments and Diplomacy

phasize this point in a concrete fashion that the present chapter concludes Part I of this study with an account of the Tunis episode.

The Tunisian question dates from the French conquest of Algeria in 1830. Henceforth France, to the displeasure of England, exerted pressure to prevent the Turkish Sultan from asserting the suzerainty which was supposed to be his over the Bey of Tunis. For example, a French fleet in 1835 barred the path of a Turkish fleet on the way to Tunis, and a decade later when the Porte sent a firman of investiture to the Bey the latter replied, at the instigation of the French consul, that he needed none. Again in 1854, 1864, 1871 France used its influence to "protect" the Bey against Turkey or to dissuade him from doing homage to the Sultan—not always with success.¹ These facts show that long before France took Tunis, and long before French investors had entered the country, the Paris cabinet had been accustomed to regard this land adjacent to Algeria as a natural field for the development of French political influence.

The era of foreign economic concessions began in 1857 at the end of the Crimean War. The French secured the right to build a telegraph line between Algeria and Tunis. In 1861 other lines were added, and the Bey was induced to sign an agreement which the French later interpreted as giving them a monopoly on telegraphic communication in the country. These concessions, it should be noted, were accorded not to private companies but to the French government itself, which constructed and operated the lines. This is important, as it shows the intensity of French political interests in the Regency before the economic interests of private French nationals had appeared upon the scene. England also had an energetic representative in Tunis, Sir Richard Wood, who, from 1855 until his recall at the request of Paris in 1879, fought tenaciously and skillfully against France's waxing

¹Jean Darcy, *France et Angleterre—Cent années de rivalité coloniale* (Paris, 1904), pp. 191-3; Narcisse Faucon, *La Tunisie avant et depuis l'occupation française* (Paris, 1893), I, 189, 192, 207, 223, 228, 245.

War and the Private Investor

"natural preponderance."¹ He obtained the promise of a number of concessions at this time, including the right to build a railway from the city of Tunis to the port of La Goulette. This concession was taken up by an English company a decade later (1871), and led it into bankruptcy, whereupon the tiny bankrupt railroad became a bone of contention between France and Italy. The other economic opportunities that Mr. Wood was at pains to secure for his countrymen remained, for the most part, singularly unattractive to English capitalists. Only French capitalists, we are told by a patriotic French historian, have always had confidence in the fortunes of the Regency. "This observation," he adds, "... goes to prove that France, and only France, might be able some day voluntarily or of necessity to intervene in Tunis."² It also goes to prove that capitalists are usually reluctant about undertaking economic enterprises at their own risk in an unstable, backward country, but that this reluctance is somewhat less on the part of those capitalists who have reason to believe that their government's political ambitions may lead it to support their private speculations.

Up to this point the French government had built some telegraph lines and the English consul had tried unsuccessfully to interest English capitalists, but there were no important private European investments in Tunis. But if financiers were not ready to risk important sums in permanent undertakings, there was no lack of European adventurers, salesmen, and speculators eager to pander to the Bey's weaknesses and to extort money from him on various shady pretexts. In this they worked hand in hand with the consuls, to whom the claims of nationals often provided welcome ammunition with which to carry on the struggle for influence. A process well known in Oriental countries under extra-

¹Except just after 1870, when the threat to the status quo in Tunis came from Italy rather than France. In that situation Sir Richard and his government joined with France against Italy.

²P. H. X. (Paul Henri Benjamin d'Estournelles de Constant) *La politique française en Tunisie* (Paris, 1891), Ch. 1; also on economic concessions, Victor Piquet, *La colonisation française dans l'Afrique du nord* (2nd edn., Paris, 1914).

Private Investments and Diplomacy

territoriality went on in Tunis: A European pulled the necessary wires, greased the necessary palms, and received the concession of vast agricultural domains or unexplored mineral lands from the Bey. In return he promised to develop the economic resources of the country, and thereby to increase the revenues of the government, though the concessionnaire himself was often accorded tax exemption. After painting these brilliant prospects to the Bey and obtaining his grant, the promoter would retire to Europe and seek to gather capital. Sometimes he would even go so far as to send workmen to Tunis, perhaps even to scratch a corner of land or to build some shacks. But soon work would stop and the astonished Bey would be the recipient of a demand for a large indemnity. The concessionnaire, it would be claimed, had sacrificed his time and his activity only to see his undertaking brought to naught by the insecurity of the country, for which the government must be held responsible. Against such claims, supported, as they usually were, by the consul of a European power determined to augment his country's influence in Tunis and therefore to regard any resistance as a national affront, the Bey had no choice. He had to reimburse concessionnaires for unreaped harvests, unborn cattle, and unmined minerals.¹

The bogs of the credit system seem to have had a fatal fascination for oriental princes—Khedives, Sultans, and Beys—newly in contact with European civilization. Urged on by the agents of foreign companies, by financial promoters, and by their own stupid or venal ministers, shown the comforts of European cities, beside which the luxury of their palaces seems superficial, and dreaming of immortalizing their reigns

¹A. M. Broadley, *The Last Punic War*. Tunis Past and Present with a Narrative of the French Conquest of the Regency (London, 1882), I, 149-50, Estournelles de Constant, *op. cit.*, pp. 64-5. Consul-General Sir Richard Wood wrote in an official report: "The treatment to which the Tunisian Government has been subjected by Europeans, who have solicited and obtained concessions and grants, but who, unable to carry out their engagements, have set up claims against it, supported by their national authorities, has discouraged it from granting concessions, which only entail upon it trouble and expense." (Reports of H. M.'s Consuls, 1879, Part I, p. 271, in *Accounts and Papers*, LXX.)

War and the Private Investor

by great public works, they are drawn into a vicious circle from which they escape only at the price of financial or political dependence. Tunis entered upon this path of ruin in the early sixties. The internal debt of the government in 1862 was equivalent to 28 million francs, on which it was paying interest at the rate of 12 or 13 per cent. The Bey's outlays were mounting steadily, while the discontent of native tribes with reforms that had been forced upon the government by the European powers was impeding tax collections. In this predicament a prime minister who had been in contact with European bankers conceived a brilliant scheme: the debt was to be "consolidated" and a loan for 35 million francs floated in Paris at an interest rate only half so high as that being paid. Such a bargain was concluded with the banking firm of Oppenheim and Erlanger on May 6, 1863. This was the first Tunisian external loan, and it began the Bey's education in western financial methods. The loan could naturally not be floated at par, and the bankers retained handsome slices—6 millions for this, 2.7 millions for that, and so on. The sum which finally seeped down through all the intermediaries, through the prime minister, to the Bey himself, was only 5.6 millions out of the 35 he had expected! Now the Bey still had the old debt (28 millions) and the new one (35 millions) as well.¹

Once started, the road to bankruptcy was rapid. New debt charges necessitated new taxes, which were levied by military bands under court favorites and yielded little to the treasury, while they goaded the population to desperation and rebellion. Insurrections necessitated new expenditures, new borrowings, new debt charges, new taxes, new rebellions. Anarchy reigned in the country. From 1865 to 1867 cholera and famine added to the miseries of Tunis. Then the currency was debased, and in a series of financial operations known as "the four conversions" the revenues pledged for previous loans were pledged again. The French holders of Tunisian bonds—most of the bonds had been sold in France

¹Estournelles de Constant, *op. cit.*, pp. 36 ff.; Faucon, *op. cit.*, pp. 214-15.

Private Investments and Diplomacy

—gathered in a hall at Paris and addressed a formal complaint to the French government, asking it to take in hand their compromised interests. At first the political interests of the French government had sought means of economic penetration in Tunis; now the private interests of Frenchmen in Tunis were in turn urging the government forward. The balance wheel of national political ambitions and private interests was gathering momentum.

It appears that the French government was only too glad to assert its "legitimate preponderance" in the country bordering on Algeria, for before the other powers could get wind of the matter and stop it, the French consul had signed a convention with the Bey under which a commission composed of Frenchmen and Tunisians was to be charged with the collection of all the revenues of Tunis and with their distribution among the state creditors. The news of this financial protectorate, to be exercised single-handedly by France, was most disagreeable to England and Italy, who saw in it a threat to the status quo, to the "equilibrium of the Mediterranean," and to other sacred symbols of international politics, perhaps even to the European balance of power. Conveniently for these two powers, a few Italians and a few Englishmen were also creditors of the Bey! The consuls of England and Italy made strenuous representations at the Bardo, and the Bey felt constrained to withdraw from his agreement with France. Thereupon the consul of France lodged energetic protests, lowered his flag, and suspended diplomatic relations. But France was not able to confront both England and Italy, and as these powers stood back of the Bey, a face-saving compromise had to be found. The agreement of July 5, 1869, retained the original Franco-Tunisian financial commission, but reduced it to the status of an executive committee under an International Commission of Control on which England and Italy were to be represented, as well as France.¹

The International Commission reduced and consolidated

¹Estournelles de Constant, *op. cit.*, pp. 53-5.

War and the Private Investor

the debt and rationed out the Bey's tax income, but contact with western civilization had already brought the Regency to a hopeless state of anarchic disorganization. Even on the morrow of the new arrangement discord reigned everywhere—between the two financial control committees, between the consuls and the financial committees, among the consuls themselves, between certain consuls and their excessively grasping compatriots, among the ministers of the Bey, between the Tunisians and the tax collectors, even between the French consul, as protector of French claimants, and the French inspector of finances who was the unyielding executor of decisions taken by the financial commission. Nevertheless, this unwieldy machinery did postpone—through more than ten years of intrigue and struggle—the final seizure of Tunis by a European power. International politics in Tunis during those years turned principally around the question of economic concessions.

The Italian consul, Signor Pinna, fished in troubled waters and obtained, among other concessions, an estate near Jedeida for an Italian agricultural company, the *Società Commerciale Industriale ed Agricola per la Tunisia*. Hardly installed on its lands, the company put forward claims to exercise jurisdiction over the inhabitants, became involved in local disputes with the Arabs living on the property, and had to retire precipitately. Thereupon the Bey was confronted with an elaborate claim for damages, Signor Pinna hauled down his flag, and Italian newspapers talked of a military expedition. This was early in 1871, while France was in the throes of the Franco-Prussian War. It seems clear that the Italian government deliberately chose this favorable opportunity to make a forward move in Tunis, and that the protection of the agricultural company happened to provide a convenient pretext. The demands advanced by Signor Pinna included not only exorbitant damages for the alleged injury suffered by the company, but tax exemption and immunity for Italian property in the future in such a form that, according to the French, every Italian landholding

Private Investments and Diplomacy

would have been an *imperium in imperio* subject only to the jurisdiction of the Italian consul. The international financial commission protested with all its might. French diplomats were alarmed but powerless. England, however, came to the rescue of the status quo and combined with France against Italy. The dispute was submitted to arbitration, and thus the principle of the balance of power and the jealousies of European states once more saved Tunis from single-handed intervention by a foreign power.¹

In 1874 Sir Richard Wood obtained a concession on behalf of an English company for the construction of a railway some 200 kilometers long to follow the valley of the Medjerdah from the city of Tunis to a point near the Algerian frontier. The French at once perceived with chagrin and alarm that such a project, by planting the English flag between Algeria and Tunis, would erect an impassable barrier to penetration from the direction of the French colony. M. Roustan, just installed as consul of France in Tunis, was deeply concerned, but he quietly bided his time, knowing that the English company would find it difficult to raise capital for such a large and risky undertaking "in a country where England had no real interests."² Meanwhile he informed General Chanzy, the French governor of Algeria, who was passionately devoted to the extension of French influence into Tunis and who undertook to prepare the way for the substitution of a French company in place of the English, should opportunity offer. Sure enough, the delay of one year specified in the Medjerdah concession passed, and the English company was not ready to proceed. Roustan persuaded the Bey's government to annul the concession, despite the protests of Sir Richard Wood, and on May 6, 1876, it was re-issued to the Société de Construction des Batignolles.³ This company transferred its rights to a subsidiary, the Com-

¹Broadley, *op. cit.*, I, 149-50; Estournelles de Constant, *op. cit.*, pp. 61-2; *Doc. Dip. Fr.* I, No. 65.

²Pierre Giffard, *Les Français à Tunis* (Paris, 1881).

³*Ibid.*; Estournelles de Constant, *op. cit.*, p. 74.

War and the Private Investor

pagnie de Bône-Guelma, a hitherto unimportant organization interested in Algerian railways. The Bône-Guelma shares had been issued originally by the Comptoir d'Escompte of Paris in 1875, and when the company increased its capital stock and floated a large bond issue in 1877, after assurance of a government subsidy, the Banque de Paris et des Pays-Bas handled most of the financing.¹

According to the leading economic exponent of French colonialism, Paul Leroy-Beaulieu, it was impossible to expect a profitable return on a Medjerdah railway line for at least fifteen or twenty years.² If the line was to be built, some sort of subsidy or guarantee was essential. It was futile to try to extract one from the debt-ridden treasury of the Bey; so in March, 1877, the French government put a law through parliament which declared the Medjerdah line to be of general interest to France and guaranteed the Bône-Guelma Company an annual net revenue of 10,122 francs per kilometer, a sum corresponding to six per cent on the estimated cost of construction.³ At the time this law was passed, hardly a voice was raised in protest—probably because of general ignorance of the questions involved and because other more absorbing political topics held the stage at the moment. Subsequent accusations were very bitter. M. Clemenceau and others in 1881 denounced the Medjerdah railway as one of the financial intrigues which had forced France into a military expedition on behalf of private speculators.⁴ A par-

¹Fernand Vatin, *Les chemins de fer en Tunisie* (Paris, 1902), pp. 27 ff.

²Paul Leroy-Beaulieu, *L'Algérie et la Tunisie* (2d edn., Paris, 1897), p. 334.

³The guarantee was first given in an agreement between the governor of Algeria and the company dated March 8, 1877, and was subsequently approved by the French parliament. (Compagnie des chemins de fer de Bône-Guelma et prolongements, *Actes Organiques*, undated, published by the company.)

Certain additional lines in Tunis were later conceded to the same company and guaranteed by the French government. This brought the total length to 220 kilometers. (Vatin, *op. cit.*, pp. 36-9.)

For text of law and agreement see *Annales du Sénat et de la Chambre des Députés*, 1877, II, 484 (March 19, 1877, annex no. 78). For discussion in Senate see *Journal Officiel*, CCXVII, 2356 (March 25, 1877). Adopted without discussion in Chamber March 19, 1877, *ibid.*, p. 2174 (March 20, 1877).

⁴For example, *Journal Officiel, Débats Parlementaires, Chambre*, November 9, 1881, p. 1969.

Private Investments and Diplomacy

liamentary report by M. André Berthelot in 1899 called the agreements between the French government and the company "either stupid or scandalous, or both."¹ Though speculators and company promoters may have reaped fat profits from the Medjerdah enterprise, it nevertheless seems abundantly clear from a study of the available evidence that the main impetus and motive power back of this and other phases of French penetration in Tunis came from the political rather than the economic side. French expansionists, influenced especially by the military men in Algeria, wanted "economic" interests in Tunis and were willing to pay well for them. French capitalists were glad to serve as patriotic tools—for a price. Thus it was that Frenchmen completed in 1880 the 190 kilometers of railway in which English capitalists, with all their reputation for daring enterprise in foreign countries, had been unwilling to risk their funds.²

Sir Richard Wood now attempted to block the access of the Medjerdah line to the sea by insisting that all merchandise must be transshipped over the facilities of the little English-owned railway from Tunis to La Goletta, and he dissuaded the English proprietors from selling out to the French company. Furthermore, according to Roustan, he

¹Quoted by Vatin, *op. cit.*, p. 40, citing Doc. Parl. 1899, No. 603, p. 31. "Never, perhaps, have agreements between a State and a railway concessionaire company provoked discussions more stormy, criticisms more violent."

²The political import of this strategic concession was not hidden from the prime minister of the Bey. "I am putting into your hands the whole future of this country, industrial, commercial, and even political," he told the French consul as the final agreements were made, and Roustan wrote exultingly to the Quai d'Orsay that many clauses of great political importance which Sir Richard Wood had skillfully incorporated into the original railway grant had now been turned to the advantage of France. Wood himself brought into the open the violently hostile attitude which he had nursed from the start as soon as he learned of the financial guarantee by the French government. At least, so Roustan reported to Paris, adding that it would have been the crowning achievement of the veteran diplomatist's career had he succeeded in planting the English flag along the Medjerdah so as to block the approach from French Algeria to Tunis. Sir Richard Wood was a diplomat of the Palmerston school who already counted fifty-three years of service, most of them spent, as he liked to say, combatting the influence of France in oriental countries. All this from Roustan throws light on the personal rivalries of the consuls in Tunis, which added not a little to the political conflict there. (*Doc. Dip. Fr.*, II, Nos. 49, 193.)

War and the Private Investor

worked to ally the Italians in opposition, and even "dictated to the German consul a dispatch designed to draw the attention of the cabinet of Berlin to the incursions of France in Tunis."¹ But while the consuls intrigued and fought over every means of influence, including economic concessions, as they always do in politically unsettled countries, bargains were being struck in Europe.

At the Congress of Berlin in 1878, which met to consider the Eastern question, Lord Salisbury let it be known that England intended to seize Cyprus, which had belonged to the Mediterranean empire of Turkey. To purchase French goodwill he suggested to Foreign Minister Waddington that England would look on with indifference should the Paris cabinet decide to take Tunis.² Bismarck, too, signified the entire, and indeed enthusiastic, approval of the German government for French aggrandizement in Tunis, explaining frankly that he wanted to see the injured pride of France restored and its attention diverted from Europe, so that it would forget Alsace-Lorraine.³

With the consent of England and Germany so suddenly to be had, French statesmen made no delay in planning to gather the harvest.⁴ Two obstacles remained, however. The

¹*Ibid.*, No. 193.

²The secret treaty by which England obtained Cyprus from Turkey and thus disturbed the status quo in the Mediterranean was communicated to Waddington on July 6, 1878. He sought out Lord Salisbury, the English foreign minister, the very next day, and "did not hide from him that . . . we were very much concerned (*très ému*) over his communication." Lord Salisbury was conciliatory and expressed his willingness to do something to counteract the unfavorable reaction on public opinion in France which Waddington assured him would result from the publication of the Cyprus treaty. The conversation veered to Tunis. "Do what you like there," said Salisbury. "You will be obliged to take it, you cannot leave Carthage in the hands of the Barbarians." Salisbury's attitude was confirmed by Lord Beaconsfield and the Prince of Wales. (*Ibid.*, Nos. 325, 330.)

³*Ibid.*, No. 330. The dispatches of the French ambassador at Berlin from 1878 until the actual occupation of Tunis in 1881 are full of repeated assurances, urgings, even taunts, emanating from Bismarck and designed to foster a bold French policy in Tunis.

⁴"I am of the opinion that we must profit by the occasion which offers itself to obtain from the English their formal consent to all that we may wish to do in Tunis, *including annexation*," (italics are Waddington's) Waddington wrote to the French ambassador in London on July 21, 1878, and the President of the Republic, Mac-

Private Investments and Diplomacy

first was the almost certain resistance of Italy to any forward step of France in Tunis. The suggestion had been advanced during the conversations at Berlin that the Italians might be appeased by the offer of Tripoli, but French statesmen considered the matter a very delicate one.¹ The other obstacle was the internal political situation, which many members of the cabinet considered unripe for a policy of colonial expansion. The memory of the Franco-Prussian War was still very recent, and a large part of public opinion in France was opposed to any action abroad which might conceivably diminish France's strength on the eastern frontier. A policy of abstention and "*recueillement*" was the order of the day. Moreover, in 1878 the weighty opinion of Gambetta opposed any sort of intervention in Tunis as inopportune; and his views prevailed over those of Marshal MacMahon, M. Dufaure (the premier), and General Chanzy (governor of Algeria), who were all partisans of immediate action.²

The result was that on September 1st Waddington was telegraphing to Roustan that some time would probably have

Mahon, agreed with him that "we must not let this opportunity slip to attain a result which the French government has never ceased to pursue during many years and which the English government has always opposed." On July 19th Waddington telegraphed Roustan that "France may be led shortly to affirm her protectorate over the Regency of Tunis," and Roustan was asked on what terms a treaty might be concluded, as well as what military force would be necessary to vanquish the Bey in case he should resist French wishes. Roustan replied that it would be difficult to get the Bey to consent voluntarily, though "monetary considerations and the desire to disembarass himself of the financial commission" might offer convenient means of pressure. On July 21st Waddington noted that the Tunisian question was being studied, but was not yet decided. "My present idea would be, first of all, to obtain the recognition of our protectorate from the Bey . . . with the right for us to occupy certain strategic points; that done, we should ask that other powers in their turn recognize the French protectorate; for the rest, time and the natural development of our actions and of our interests would do their work." (*Ibid.*, Nos. 330, 328, 329.)

¹M. Desprez, Director of Political Affairs at the Quai d'Orsay, telegraphed Waddington on July 18th that he still considered the Tunis question a "very grave one for our relations with our neighbors on the south," and in his opinion it was essential that the matter of compensation be gone into carefully. Waddington inquired of Roustan whether he saw any dangers in letting Italy establish itself at Tripoli, and Roustan saw none, on condition that Tunis be occupied by France. (*Ibid.*, No. 328 and note to No. 329.)

²Estournelles de Constant, *op. cit.*, p. 81.

War and the Private Investor

to pass before the matter of the protectorate over Tunis could be pushed. Roustan was admonished on the 5th to "continue meanwhile to follow the maneuvers of Italian agents closely and to study men and things with a view to action later on," while the French foreign office cast about for something to offer Italy.¹ On October 13, 1878, Waddington instructed his ambassador in Rome that in case the Italians should inquire about Tunis they were to be told that conditions there were of vital interest to France because of the proximity of Algeria; that France had no desire to annex Tunis at present, but for many years the government of France had regarded it as a country destined to gravitate into the orbit of French interests. In accordance with this policy, France had always treated the Bey as a sovereign in his own right and not as a vassal of the Sultan. For the same reason France could not permit any other power to establish itself on the territory of Tunis and would immediately oppose any such attempt by force of arms. "It is absolutely necessary," the ambassador was told, "that the Italian government grasp very clearly this idea that Italy cannot cherish dreams of conquest in Tunis without colliding with the will of France and without risking a conflict with her." If possible the ambassador was to get the Italians themselves to suggest what compensation in the Mediterranean they might be willing to accept.² About the same time Waddington was complaining to London that, despite English promises, Sir Richard Wood was continuing his aggressive opposition to French influence in Tunis. In Berlin, Bismarck told the French representative he wanted to see an outlet for French *amour propre*, belittled the importance of Italian opposition, and offered to ask England for the removal of Wood. In January, 1879, Lord Salisbury yielded to the wishes of France and replaced Sir Richard Wood by Mr. Reade.³

¹*Doc. Dip. Fr.*, II, Nos. 339, 340, 342.

²*Ibid.*, No. 352.

³*Ibid.*, No. 347 (October 4, 1878); No. 369 (January 5, 1879); No. 373 (January 9, 1879), No. 375 (January 14, 1879); No. 376 (January 21, 1879).

Private Investments and Diplomacy

Notice that events have thus far been traced only to the latter part of 1878, but that already the ruling French statesmen had manifested the definite intention to take Tunis and were waiting only for the most opportune moment. This is established beyond question by the recently published French diplomatic documents. Notice furthermore that the government of Jules Ferry—which has usually been assigned far too large a share of responsibility for the Tunisian conquest simply because it was in power when the climax came—was not to take office for two full years from the time of the diplomatic preparations reviewed above. Ferry wrote the literal truth when he subsequently disclaimed that he and his colleagues had invented anything in Tunisian policy. "We followed a tradition," he said. "We took up the plans which had been studied, worked out in detail by our predecessors. Our only merit was to dare and to act at the opportune time."¹ Notice, finally, one more circumstance of crucial importance for evaluating the rôle played by private investments in the conquest of Tunis: The spectacular diplomatic disputes over economic rights in the Regency which have offered a particularly tempting basis for the generalization that the motivation of French policy came from private economic interests occurred *after* the definite crystallization of this policy. The disputes alluded to comprise mainly four Tunisian "affairs" which attracted the attention of Europe from 1878 to 1881—the Sancy affair, the purchase of the Tunis-La Goletta Railway, the Enfidra affair, and the Crédit Foncier.

In July, 1877, M. Roustan persuaded the Tunisian government to grant an estate to the Count de Sancy, a Frenchman resident in Tunis, in consideration of the latter's promise to engage in stock-raising and to improve the breed of horses in the country. The concession specified that de Sancy's rights were to be forfeited if a stipulated number of animals were not found on his farm by July 1, 1878. That date ar-

¹Jules Ferry in preface to Narcisse Faucon, *La Tunisie avant et depuis l'Occupation Française*. (Paris, 1893), Vol. I, p. "j."

War and the Private Investor

rived, the animals were not there, and the Bey undertook to repossess the estate. In this he was backed by the consuls of England and Italy and the International Financial Commission, including the French Inspector of Finances, M. Queillé, who was interested in maintaining the Bey's sources of revenue intact for the benefit of bondholders. The Count de Sancy, on the other hand, claimed that interrupted communications with Europe consequent on the Russo-Turkish War had prevented him from fulfilling his part of the contract and that his estate should not be forfeited. Roustan, as political agent of France, was pursuing a policy of "penetration" and was always eager for pretexts on which the authority of his nation might be demonstrated or increased, so of course he took the part of the Count. The affair now entered the realm of high politics.

On December 9, 1878, a commission of which M. Queillé was a prominent member proceeded to the estate in dispute, intending to take possession in the name of the Bey. They were met by a guard from the French consulate, forbidden to enter, and finally forced to retire. The news of this astonishing conflict spread rapidly to the capitals of Europe, and in Paris the foreign minister, M. Waddington, fully upheld the conduct of Roustan. M. Queillé was censored and called home.¹ Next followed an anxious interchange between Paris and Berlin. Was Bismarck, by any chance, secretly encouraging Italy in Tunis, and did this explain why the Bey, apparently acting under Italian instigation, had suddenly become less docile toward France? Bismarck, however, vigorously reaffirmed his intention to support French ambitions in Tunis, in token of which the German government let it be known that reports from its consul showed M. Roustan to be all in the right and the Bey completely in the wrong on the de Sancy issue. The consul of Germany's ally, Austria,

¹Estournelles de Constant, *op. cit.*, pp. 84-5. It is not clear just what control the French government had over the inspectors of finance sent to Tunis to represent French interests on the International Financial Commission. Though nominally agents of the bondholders, they were apparently government officials selected from the Ministry of Finance.

Private Investments and Diplomacy

who had sided with the Bey and the financial commission, was officially censored by his government. Emboldened by these assurances, Waddington hesitated no longer, dispatched an ultimatum to the Bey (January 5, 1879), and prepared to back it with a naval squadron, if necessary. It was expected, however, that the Bey would yield, and this he did, having no other course open to him.¹ Thus high politics in Europe rather than anything M. de Sancy and the Bey had done or not done in Tunis determined which way the scales of justice turned in this particular case of diplomatic protection.

In February, 1879, Waddington sent a draft treaty to Roustan and again asked him to feel out the Bey on the question of a protectorate, now that the outcome of the de Sancy affair had demonstrated his helplessness against France. Waddington's dispatches show clearly enough that the French government wanted to make its position paramount in Tunis, but that it feared to imperil its political position at home and to risk foreign complications by using force.² So "peaceful economic penetration" continued. Meanwhile a new Italian consul, Signor Maccio, had arrived in Tunis with a display of military pomp and circumstance (dutifully and jealously reported to Paris by Roustan), which gave warning that henceforth French advances would be hotly contested.³ The pressure of rival intrigue upon the unfortunate Bey redoubled. If he yielded in alarm to the threats of M. Roustan, he was sure to incur the wrath of Signor Maccio. If he listened to the blandishments of Maccio he was sure to find himself treading on some sacred right of France or of French citizens, which Roustan assured him would be defended by warships if necessary. The Bey temporized and vacillated. The consuls protested, advised, threatened, wrote long dispatches to their governments about each other's plots. The cabinets of Paris and Rome weighed the

¹*Doc. Dip. Fr.*, II, Nos. 366-369, 372, 374.

²*Ibid.*, Nos. 375, 381, 449.

³*Ibid.*, No. 366 (December 29, 1878).

War and the Private Investor

political imponderables, warned each other through the suave language of their ambassadors, and egged their consuls on.

Suddenly a rumor spread that Commander Rubattino, an Italian shipping magnate acting at the behest of his government, was about to buy the tiny railway from the city of Tunis to the harbor of La Goletta for which Sir Richard Wood had obtained the concession and which had bankrupt the Tunisian Railways Company, Ltd. On March 31, 1880, a telegram from Roustan confirmed the rumor, but added that negotiations for the equipment were still pending and the transaction was not yet closed. "It is believed that a solid offer of four million might still prevent the conclusion of the deal to the profit of Italy."¹ The word "profit" in this diplomatic sense meant the right to subsidize a bankrupt railroad upon which the political equilibrium of the Mediterranean suddenly seemed to depend. The secretary of the English company was still bargaining in Rome when the Bône-Guelma Company hurriedly invited another agent to Paris by telegraph and bought the railway forthwith at a price of 2,600,000 francs (\$520,000). The news of this purchase provoked the most lively dissatisfaction among the Italians,² and while Freycinet (now Minister of Foreign Affairs in France) telegraphed Roustan to get the Bey's formal approval to the sale without delay,³ Rubattino's agents went before the English chancery court charged with the liquidation of the Tunisian Railway Company's affairs and were successful in having the transaction reopened—to the manifest advantage of the stockholders. The court ordered the railway to be sold at public auction in London on July 7, 1880.

¹*Op. cit.*, III, Nos. 49, 51, 72, 80.

²Italian officials made no effort to conceal the fact that Commander Rubattino had been acting at the wish of the government. Broadley says that as the English agent was leaving Rome he learned that the telegraph office there had been authorized by the Ministry of the Interior to deliver to Rubattino copies of all telegrams which he, the English negotiator, might send or receive. (*Op. cit.*, I, 187.)

³*Ibid.*, III, No. 89 (April 15, 1880).

Private Investments and Diplomacy

When that day came the Bône-Guelma Company retired from the bidding at four million francs, and the Italians got the road for 4,137,500 francs (\$827,500)—an amount said to have been about four times its reasonable valuation, for it was badly constructed to begin with (in places the ties were reported to have been laid on the bare ground) and was in need of extensive repairs.¹ The political rivalry of France and Italy had produced a fortunate windfall, indeed, for the stockholders of the bankrupt enterprise! It soon became apparent why Commander Rubattino had been able to bid such a handsome sum. Five days after the sale his company, the Società Generale di Navigazione, signed an agreement with the Italian government whereby the public treasury guaranteed annual earnings of six per cent on the purchase price and a like return on investments necessary to recondition the line.² The railway was also, in a sense, an extension of the steamship service from Italy to Tunis for which Rubattino's company was already receiving a subsidy.³ Thus Italy followed the example of France in subsidizing means of "economic penetration" in Tunis—to the definite alarm of French statesmen and diplomats. The Tunis-La Goletta railway episode, which gave clear evidence of Italian political intentions in Tunis, did more than any other single factor to bring the Tunisian question to a head and to precipitate the French military occupation of the

¹*Ibid.*, III, Nos. 193, 196; Broadley, *op. cit.*, I, 188; Vatin, *op. cit.*, pp. 65-68.

²This agreement was signed on July 12, 1880, ratified by the Chamber of Deputies on the 15th, and by the Senate on the 17th. (Vatin, *op. cit.*, pp. 65-68.) The company agreed not to sell without the consent of the Italian government, and various phases of the railway's management were to be subject to governmental approval, including personnel. (*Doc. Dip. Fr.*, III, No. 213.) After the French occupation in 1881 the political value of the railway decreased. It remained the property of the Società Generale di Navigazione until 1898, when the company ceded all its property in Tunis, including railways, equipment, boats, land, supplies, etc., to the Tunisian government for 7,500,000 francs. It was charged in the Italian parliament that while certain persons who had risked nothing made some 2,500,000 lire on the transaction, the road had lost money for the public treasury. Government officials replied that the profits realized by the company had been much exaggerated. (Vatin, *op. cit.*, pp. 70-71, and *La Dépêche Coloniale*, March 27, 1901.)

³Ubaldo Peruzzi, "Tunis et l'Italie," *Revue Politique et Littéraire*. July 23, 1881, p. 104.

War and the Private Investor

following spring. "Peaceful penetration," when blocked, usually turns to military measures.

In 1880 a former prime minister of the Bey, Kheredine, then resident in Constantinople, sold a huge estate called the Enfida to a French financial organization, the Société Marseillaise. Kheredine owed his holdings to the favor of the Bey, and is said to have seized this opportunity to convert them into cash so that he could not be deprived of them by the intrigues of his successor. The Société Marseillaise paid 2,500,000 francs for the estate, probably speculating on political developments which would soon establish the authority of France in Tunis. Roustan exulted over the addition to French influence that the Enfida would mean—"70,000 hectares: it is a province."¹ The new prime minister and the Bey (and presumably the Italian consul, behind the Bey) were naturally much alarmed when they heard of this latest increase of French interests. The Bey declared that he had given the Enfida to Kheredine for his own tranquil enjoyment, not for sale to foreigners, and when the Société Marseillaise came to register its title in the manner prescribed by Tunisian custom it encountered every possible obstruction. The Enfida question, too, ascended into the realm of high politics.

A principle of Tunisian law known as the right of *scheffa*, based on the Koran, provided that a neighboring landowner has a right to purchase property about to be sold to a third party, provided he is willing to pay the same price. This right was invoked against the Enfida, after its sale to the Société Marseillaise, by one Levy, a Jew from Malta who was a British subject and therefore under the diplomatic protection of Great Britain. Levy (or whoever was thrusting him forward) had the legal services of a clever English lawyer named Broadley, who was newly arrived from India and appears to have welcomed the opportunity to bring himself into prominence and to thrust sticks into the wheels of the French. Broadley was not merely Levy's advocate; he was

¹*Doc. Dip. Fr.*, III, No. 100.

Private Investments and Diplomacy

also, or soon became, the Tunisian correspondent of the *London Times*—one of those startling examples of the relations between sources of public opinion and parties interested in the diplomatic protection of interests abroad. He also had contacts with certain members of parliament, one or two of whom had visited Tunis, observed the French efforts at penetration, and were kept informed by Broadley. His espousal of Levy's cause soon resulted in questions being put to the government in the House of Commons.

The available accounts of Levy's procedure against the Enfida are very conflicting, both as to fact and interpretation. Roustan's dispatches to Paris conveyed the distinct impression that this was just one more subterfuge entered into by the Bey and his officials, with the connivance of Signor Maccio, to impede the legitimate progress of French influence. Levy was an unimportant person never heard of before, a mere pawn of powerful anti-French intriguers. This is also the view taken by French historians, one of whom states that at Levy's death it developed that he had never owned any property contiguous to the Enfida.¹ How different were these "facts" as known to French statesmen and to readers of leading French journals from the same "facts" as known to readers of the *London Times*! Broadley's account of the affair, included in his two volumes on Tunis published in 1882,² portrays Mr. Levy as the owner of an important estate adjacent to the Enfida who had for some time been trying to buy Kheredine's property, backed financially by Tunisian friends. Kheredine and the Société Marseillaise had sought to prevent exercise of his right of *scheffa* by providing in the deed that Kheredine was to retain a zone of land one meter wide all around the estate, but this expedient ignominiously failed because Levy also owned gardens within the Enfida!

In any case, local justices placed Levy's servants in possession of the Enfida on January 12, 1881, and on January 16th they were forcibly ejected by an agent of the Société

¹Estournelles de Constant, *op. cit.*, p. 105.

²*Op. cit.*, I, 198-202.

War and the Private Investor

Marseillaise with the help of guards from the French consulate, while Roustan let it be known that he regarded the Enfida as French property, outside the jurisdiction of local courts and not subject to local law—an *imperium in imperio* such as the Italians had tried to establish in 1871. Now there were diplomatic interchanges between London and Paris.¹ When France dispatched a warship to Tunis, Lord Granville replied that since the Tunisian courts might be overawed by such a display of naval force it would be necessary to send an English ship to restore the balance, and one actually appeared. It is significant that in the argument between the French and British foreign offices, M. Barthélemy Saint-Hilaire (who had become foreign minister in France) based his representations upon the general situation of France in Tunis, the interests which France's possession of Algeria gave her there, and the previous assurance of a free hand in Tunis received from Lord Salisbury in 1878. Just as in the Sancy affair and in similar cases of diplomatic protection, the abstract justice of the individual rights supposedly at stake receded into the background; the outcome hinged upon matters of high policy. Eventually both governments withdrew their cruisers, Levy was placed temporarily in possession, and the dispute was settled through the local courts—after the French occupation, and unfavorably to Levy. Jules Ferry afterwards stated in the French Chamber of Deputies that the Société Marseillaise had acted very patriotically in the matter, implying that for political reasons it had refused a tempting offer for the Enfida.²

Not long after the excitement over the Tunis-La Goletta railway had subsided, M. Léon Renault, a member of the

¹*Doc. Dip. Fr.*, III, Nos. 351, 361, 364, 370, 375, 377; *British and Foreign State Papers*, 72 (1880-81), 1329-55.

²Not only had Kheredine rejected offers from a group of Tunisian capitalists after he had promised the estate to the Société Marseillaise, said Ferry, but the French company had itself had an offer. From whom? From the Ottoman government!

"Reflect on the gravity of the incident . . . a profit of five hundred thousand francs was offered to it (the Société Marseillaise) if it would sell to the Ottoman government, represented by Said-Pasha. Well, gentlemen, it refused, in the midst

Private Investments and Diplomacy

French Chamber of Deputies, arrived in Tunis as the agent of certain French financiers who proposed to create an agricultural mortgage bank. They hoped to make their profits by lending money to the cultivators of Tunisian soil, and by taking over land should the frequent bad harvests render the debtors unable to pay. The promoters argued that the undertaking would be of distinct advantage to the Bey by making it easier to collect taxes. They asked him to grant a concession conferring upon the proposed "Crédit Foncier" the exclusive right to issue banknotes to the value of the loans advanced by it, and, in addition, one clause of the proposed concession was alleged to have provided that the Bey would undertake to guarantee the bank against loss.¹ M. Renault was introduced to the Tunisian government by Roustan at an interview in which the latter discussed with the prime minister certain movements of French troops on the Algeria-Tunis frontier. ". . . I remarked to Mustapha," reported the Consul, "that the journey of this Deputy and the projects in the interest of Tunis which he brought with him was the best response to the alarming rumors which have been spread the last few days regarding the intentions of the government of the Republic. . . . Without entering into the details of the projects presented by M. Léon Renault, I gave Mustapha to understand that their execution would be calculated to

of the worst difficulties created against it. Perhaps there is in this refusal proof of a patriotic sentiment to which I am glad to render homage here." *Journal Officiel, Débats Parlementaires, Chambre*, November 10, 1881, p. 1980.

Ferry's statement might be read in connection with the following passage from the *Livre Jaune* ("Affaires de Tunisie, 1870-1881") reproducing a dispatch from M. Roustan to the minister of foreign affairs, December 7, 1880. ". . . M. Ruffigny [agent of Société Marseillaise in charge of the Enfidal] leaves today for Marseilles, I should like him to go to Paris to give an account of the situation to your Excellency and to receive encouragement (*et recevoir ses encouragements*)."

These bits of evidence make it apparent that the French government was at least as much interested in acquiring political advantage through the Enfidal purchase as was the Société Marseillaise in winning profits.

¹Broadley, *op. cit.*, I, 191-3; II, 361-3 (Appendix "M"). Broadley claimed to write with the draft of the proposed concession *in extenso* before him and quoted it in full. The alleged text was also published in *La Justice*, a Paris journal, and figured in the Rochefort trial. Renault and Roustan denied the accuracy of this text, but they did not back their denials by revealing the actual proposals made to the Tunisian government. See *L'Intransigeant*, October 3, 1881, and December 16, 1881.

War and the Private Investor

consolidate the relations of mutual friendship" between Tunis and France. Critics later said that this was a veiled threat.¹ Jules Ferry replied that the concession had not been granted by the Bey and that this constituted the best proof that there had been no undue diplomatic pressure behind it.

These were the four affairs that provoked so much discussion in the French parliament and press after the military occupation of 1881. They formed the main basis of the charge that the conquest had been undertaken for private economic ends. But it seems clear that the disputes over de Sancy's concession, the Tunis-La Goletta railway, the Enfida, and the support of the Crédit Foncier project were all incidents in a definite policy of political penetration determined upon prior to the advent of these particular interests. The particular interests were able to take advantage of the diplomatic policy for their profit-making purposes, because the diplomatic policy needed their services as economic instruments. Thus politics and private investment were interwoven.

It is unnecessary to trace the other diplomatic battles between the consuls of France and Italy that preceded the events of May, 1881. They, too, concerned economic matters—port and railway concessions demanded by Roustan to counterbalance Italy's La Goletta purchase, hot argument over the telegraph line which Italy proceeded to erect along the railway and to connect up with an undersea cable, Roustan's demand that the Bey grant no further railway concessions to Italy. It was not only economic interests, however, which served as tools of diplomatic struggle in Tunis. The Italians published a newspaper in the Arab language and circulated it among the native population to arouse antagonism against the French. Italian and French priests aligned themselves with the political ambitions of their countries.² French partisans assert that the Italian consul employed agents to stir up rebellion and anti-French demonstrations,

¹M. Roustan to M. Barthélemy Saint-Hilaire, December 21, 1880, *Livre Jaune*, "*Affaires de Tunisie, 1870-1881*," criticized in *L'Intransigeant*, October 3, 1881.

²*Doc. Dip. Fr.*, III, Nos. 337, 449.

Private Investments and Diplomacy

while the English lawyer, Broadley, claimed to know first-hand from agitators employed by Roustan that the French consul himself had fomented many of the tribal disturbances on the Algerian frontier which provided the final pretext for intervention.¹

Toward the end of January, 1881, Roustan's dispatches from Tunis and the Havas news agency's reports to the French press began to emphasize the raids of the Kroumirs from Tunis into Algeria. These were a nomadic people who had for years carried on intertribal warfare with little regard for a theoretical boundary line that meant nothing in their desert haunts, and no one in Europe had paid any attention to them until it suddenly became convenient to do so. Yet it was for the announced purpose of chastizing the Kroumirs that the cabinet of Jules Ferry on April 7th asked parliament to vote a small credit for a military expedition from Algeria, and it was this expedition which occupied the capital of Tunis, forced the Bey to sign the treaty of May 12, 1881, and made his country a protectorate of France.

There was much more at stake between France and Italy in the Tunisian question, of course, than the right to build unprofitable railways, to construct port works or to lay telegraph and cable lines. Two issues of deep import were involved: The first was the right to exercise preponderant political influence over the government of Tunis, or ultimately to annex the country. The second sprang out of the first, once an open conflict had developed. It was the question of prestige and hence of power; it made victory or defeat on the first issue a much more significant matter than the mere gain or loss of control over Tunis.² In accordance with this

¹Broadley, *op. cit.*, pp. 204-13.

²"Your Excellency has long understood that the question at stake is something quite other than that of the La Goletta railways and a few kilometers of telegraph wire on the Regency's territory," the French ambassador at Rome wrote to Barthélemy Saint-Hilaire on March 19, 1881. "Those are merely the pretexts being used. It is not only a question of commercial and political influence in Tunis; the aims of our adversaries go beyond that: what they really want is to supplant France in the Mediterranean and to assume there, after England, the second place that we occupy by reason of the importance of our commerce and to substitute themselves

War and the Private Investor

situation, the French foreign office gradually built up an explicit doctrine which rationalized the relationship between economic concessions and political influence in Tunis. In successive dispatches to Rome, London, and other European capitals it can be seen taking shape, until it was stated most completely by Freycinet in an interview with the Italian ambassador on July 16, 1880. Freycinet's exposition was as follows (paraphrased and slightly condensed):

There are two very distinct categories of economic enterprise which may attract the nationals of France and Italy in Tunis, the first of a purely private sort, the second in the nature of public utilities, which usually fall within the exclusive domain of the state. In this latter category are telegraph lines, port works, railroads, etc. Such enterprises bear the essential mark of the state, when they are not executed by the state directly. In the domain of purely private interests, let there be entire freedom for Italians and Frenchmen to compete; if Italians win the palm, France has nothing to say. Let there be active and skillful agents in Tunis to protect Italian nationals; France does not object. But where state enterprises are concerned, or where the political direction of the Regency is involved, France cannot agree to a division of authority, which would be a perpetual menace for France and an inevitable source of conflicts.¹

Seldom have the interrelations which characterize private economic enterprise and political influence in disputed regions been so explicitly expounded by a government. We must observe, however, that the distinction between Freycinet's two categories of enterprise is a matter of degree, one shading into the other; and despite his protestations that Italian undertakings of a purely private character would not be resented by France, it is obvious that under the conditions

for us wherever they can. Italy can hope to attain this end only if we fall victim to some grave European complication. Thus, the conflict may very well, one day or another, cease to be partial and local and have the most dangerous repercussions at London, Vienna, or Berlin." (*Doc. Dip. Fr.*, III, No. 405.)

¹*Ibid.*, No. 214 (July 16, 1880). Cf. also Nos. 193 (July 6, 1880) and 211 (July 14, 1880).

Private Investments and Diplomacy

which then prevailed in Tunis any important investment of capital was bound to take on the character of a public question. Not only railways, port works, telegraphs, and cables, but even bank projects, land speculations, and agricultural enterprises served as instruments of political penetration, provoked further penetration, and became centers of international friction.

PART II: PRIVATE INVESTMENTS AND THE CAUSES OF WAR

A. ANALYSIS OF INVESTMENT FRICTION AND INVESTMENT CONFLICT

CHAPTER 13

Conditions Under Which Investments Are Most Frequently Involved in Political Friction

UNDER what circumstances do private investments most often become involved in international political difficulties, and why? What are the basic conflicts back of the investment aspects of the so-called economic causes of war? Why do these conflicts sometimes take the form of clashes between organized national states? These are some of the theoretically interesting and tremendously practical questions with which it is proposed to deal in Part II. The present chapter will examine the circumstances under which private investments have been centers of political friction, with the object of ascertaining why certain situations and certain types of investment produce more such difficulties than others.

First, what have been the relative political dangers of the two processes analyzed in Part I? That is, has the use of private investments in the service of diplomacy tended to create more dangerous or less dangerous situations than the use of diplomacy in the service of private investments? A careful answer to this question cannot be made without the important qualification that the distinction between investments as tools of foreign policy and as determinants of foreign policy, when presented in sharp focus for the sake of clarity of analysis, inevitably departs more or less from reality. We know from the cases of Part I that these two political rôles of private investment are usually interwoven to some degree.

War and the Private Investor

It would be a mistake, therefore, to imply that a clear-cut distinction can be made between investment friction¹ arising out of the use of private capital as a tool of diplomacy and investment friction connected with the use of diplomacy as a tool of private capital. The foreign policies of states and the foreign investments of their citizens mutually influence and condition one another. Nevertheless, there are certain observations about this mutual conditioning in relation to international political friction which are important, partly because, while based on concrete case studies, they are not altogether in line with what some theoretical writers on the "economic causes of war" have prepared us to expect.

There have been many more serious cases of investment friction between strong states where the predominant rôle of the investments has been that of tools than where private capital has played the part of instigator of a friction-causing policy. Recall the Franco-Italian clash over Tunis, the Turco-Italian war over Tripoli, the penetration of the Yalu by Russia before the Russo-Japanese War, the tensions between England and Russia in Persia, Japanese operations in Manchuria, and many similar cases mentioned in Part I. Cases of the other type—that is, in which investors, for the sake of profits, have directly brought major powers into serious political friction—are much more rare. Samoa seems to offer one. The German private debts may be, to a limited extent, another. Perhaps the Boer War might be included here (with its preliminaries of the Jameson Raid, etc.), though we have noted that it would be very questionable to classify the leader of the South African financiers, Cecil

¹Note on terminology: This expression "investment friction" will be used as a substitute for the lengthy and awkward locution, "international political friction between national states either caused by or associated with the investment of private capital abroad." Similarly, the expression "international investment conflict," or simply "investment conflict" will be used to mean clashes of interest or attitude associated with the investment of private capital abroad, insofar as these clashes involve private persons and groups, not states. Thus, antagonism between the native population of a Chinese province and foreigners who are building a railroad through the province is "investment conflict." If foreign governments send threatening notes to the Chinese government in connection with these matters, or if they quarrel among themselves over the railroad, then we have "investment friction."

Private Investments and the Causes of War

Rhodes, as predominantly profit-seeker rather than political empire builder. Furthermore, the Boer War was not between two major powers, though it did have European repercussions, especially on Anglo-German relations. Should the political friction among Germany, France, England, and Russia which centered about the Bagdad railway be counted as instigated by the activities of profit-seeking investors? Certainly that was part of the complex of causes, but it can hardly be called the predominant one. The political fears, ambitions, and strategies of statesmen, which made the railway a pawn in the game of *haute politique* and the balance of power, were much more decisive in determining that it should become a friction center than were any interests or attitudes of the capitalists themselves. Indeed, these latter could have reached compromises among themselves several times had it not been for the political interests of their governments. The Mannesmann brothers with their mining claims in Morocco, and the Lynch brothers with their navigation monopoly in the Near East, were material factors in making it difficult for governments to settle certain disputes, but in both cases the political clashes stemmed from quite other roots than investment conflicts, while in one if not both the investments had begun as tools of diplomacy and later began to add their own aggravations to the situation. Numerous interventions, like those practiced by the United States in Nicaragua, Cuba, and the Caribbean generally, have had a mixed background of investment and strategic political interest, but these have usually not involved clashes between major powers. Where there has been really serious friction between major powers over investment matters, examination will disclose in most instances that the political opposition existed before the investment issues arose, and either expressed itself through them or crystallized around them.

Also, conflicts over private investment matters between strong states have rarely, almost never, reached a state of dangerous international tension except in cases where the states involved have been pursuing some political policy

War and the Private Investor

(extraneous to the investment affair itself) which has led them into conflict. Investments have become involved in dangerous international disputes mainly where political clashes existed already, and the investments offered a field of battle, or new weapons, for the further prosecution of the already existing conflict. In other words, private investments seeking purely business advantage (i.e., unmotivated by political expansionism, balance of power strategy, military considerations, or other reasons of state) have rarely of themselves brought great powers into serious political clashes. It is where an aura of political ambitions has attached to the investments, and especially where the investments have been pushed in for political reasons from the start, that most of the dangerous investment frictions between great states have occurred.

This is the factual situation, revealed by the investigation of concrete cases. If one seeks to account for these facts, the most useful explanation will run in terms of the way in which those in charge of foreign policies apply the principle of national advantage. Desires of investors in harmony with established lines of national foreign policy receive enthusiastic governmental support. Desires of investors which run counter to established lines of national foreign policy receive hesitant or grudging support, no support at all, or active opposition. This is an important general principle of wide application. Now, it is characteristic of modern international relations that those lines of foreign policy which the governors of national states at any particular time conceive to be in the highest national interest are almost certain to be based on considerations of power. National power is generally regarded not only as the *sine qua non* of prideful national existence, but as a sacred necessity in order to provide security against attack. Just as the military and naval expenditures of states comprise the largest items in their governmental budgets, so power ranks highest among the conscious or unconscious objectives of statesmen who determine foreign policy. This gives greatest weight to questions of military and naval

Private Investments and the Causes of War

strategy (including territorial bases, lines of communication, and the like), alliance politics, and "prestige" in general. This latter is an extremely important phase, not only of national pride, but of actual power, for it enables statesmen to win battles without fighting and is generally believed by them to constitute the best insurance against military attack or political pressure from without. Prestige is a compound of such various elements as military strength, past history, political alliances, colonial conquest, industrial productivity, and success of nationals in foreign commerce—those things which nationalists regard as essential to prevent their country from becoming a "second-rate" nation. Economic development, including economic expansion abroad, has been increasingly recognized by governments as a cardinal factor in a nation's prestige and hence in its power, not to speak of the direct relationship between certain aspects of economic development and military power itself. Economic expansion abroad, however, is only one phase of that complex called national prestige and power, and the interests of particular private investors abroad may be minor items in the whole. When the vigorous promotion and protection of private investment interests abroad seems to the governors of national states to offer an occasion for increasing the general power and prestige of the nation, they are ordinarily eager to assist. They are often more eager than the investors themselves, as we have seen in a great many cases. But when for any reason a clash arises between the particular investment interests of citizens abroad and some of the other constituents of national power enumerated above, the least "vital" will be sacrificed. Private investment interests have usually, in actual practice, been subordinated by governments to factors of general political or military strategy which have a more direct bearing on power. Thus it is that private investors have received strong, even outrageously exaggerated governmental backing where they have been tools and agents of power and prestige politics; while other investors, whose projects seemed to run counter to the govern-

War and the Private Investor

ment's line of political endeavor, have experienced official indifference or even active opposition. A few concrete examples follow:

The British government, for the sake of the political advantage of maintaining the goodwill of the United States, in 1913 influenced its oil magnate, Lord Cowdray, to drop projects on which he had embarked in Mexico, Colombia, and other Latin-American countries. At the same time the same government was encouraging its oil men in other parts of the world, and had previously been aiding Cowdray, also, who had a contract for supplying oil to the British navy. The pressure from the United States was bound up with general questions of Mexican policy, which then were acute due to the revolution, with the Panama Canal tolls question, and with President Wilson's doctrine enunciated in his Mobile speech (October 27, 1913) that economic concessions as well as territorial acquisitions might imperil a country's autonomy and would have to be considered by the United States in upholding its Monroe Doctrine. It was Ambassador Page in London through whom these views were pressed upon the British government, and he wrote to Wilson that "the real meaning of concessions" at last began to get into the heads of those in control, whereupon they "pulled Cowdray out of Colombia and Nicaragua—granting the application of the Monroe Doctrine to concessions that might imperil a country's autonomy." To Colonel House, Wilson's confidential adviser, Page reported: "Lord Cowdray has been to see me for four successive days. I have a suspicion (though I don't know) that, instead of his running the Government, the Government has now turned the tables and is running him. . . . He told me this morning that he (through Lord Murray) had withdrawn the request for any concession in Colombia." Later Page added that "Cowdray has, I am sure, lost (that is, failed to make) a hundred million dollars that he had within easy reach by this Wilson Doctrine, but he's game."¹

It appears that the American government was ready to show a similar consideration toward the British when in 1927 the Kingdom of Abyssinia moved to extricate itself from the political domination of England, Italy, and France by drawing in "neutral" American

¹Burton J. Hendrick, *The Life and Letters of Walter H. Page* (Garden City, N. Y., 1922), I, 217, 251.

J. Fred Rippy, *The Capitalists and Colombia* (New York, 1931), pp. 108-11, points out that it is a question whether or not the pressure from the United States was the really effective influence in leading Cowdray to abandon his projects in Colombia, Mexico, Ecuador, Costa Rica, and elsewhere. The Page letters merely show that such pressure was exerted.

Private Investments and the Causes of War

capital for the construction of a dam at Lake Tana on the headwaters of the Blue Nile. Dr. Martin Workener, as a personal representative of the Abyssinian sovereign, Ras Raffari, journeyed to New York, where he interested the White Engineering Corporation. In Washington he talked with Secretary of State Kellogg and was told that the American government could regard the project favorably only if assurances were given that no slave labor would be employed and if it were agreeable to Great Britain. Britain had a special interest in the Tana Lake region as strong or stronger than that claimed by the United States in Latin America, for out of it flowed the waters that gave life to Egypt. The appeal to American capital probably did improve Abyssinia's bargaining position when final arrangements came to be made, but the United States showed no inclination to support its investors in any arrangements that would alarm Britain.¹

In Persia the British government stood by after 1907 and abetted the Russian program of maintaining anarchy and financial chaos. High policy called for friendship with Russia, but Russia's procedure in Persia, calculated to maintain foreign political dominance, was certainly not helpful to British trade and investment in the country. When power diplomacy seeking strategic political advantage was believed to call for anarchy, while the interests of trade and investment called for stability, the dictates of political advantage took precedence.²

In France, "above and beyond all other considerations which induced French official intervention with the movement of French capital abroad was the wish to make the investment serve the political purposes of the state." The Minister of Foreign Affairs, announcing the rejection of an application by French bankers for official listing of bonds of the *Crédit Foncier Cubain*, explained, "When a request is addressed to the government, it is examined with an appreciation of the financial interest and French political interests . . . in all requests the French interest should take precedence over the financial interest. . . ." Likewise, in the protection of investments once made, heavy losses to investors caused by the action of certain Latin-American states where France had no pressing political concerns brought only mild measures, while much less serious interference with French private interests in Turkey

¹File of clippings on Abyssinia in the "Weltwirtschaftliches Archiv" of the Institut für Weltwirtschaft, Kiel, especially "Das Tsanasee-Problem," by Max Gruhl, leader of the German expedition to Abyssinia in 1925-6 and 1927-8, in the *Kölnische Zeitung*, July 8, 1928, *Wirtschaftsdienst* (Hamburg), March 21, 1930.

²The facts are well presented in Herbert Feis, *Europe the World's Banker: 1870-1914* (New Haven, 1930), p. 376.

War and the Private Investor

were seized upon as the occasion for a naval demonstration and political demands. "Eager as it was to protect its investors, influential as these investors were in official circles, it was in a measuring of political advantage or disadvantages that the government found its primary guide."¹

The German government in 1911 prevented the issue of American railway paper in the Berlin market, on the ground that the outflow of capital was producing a scarcity which was having bad effects on the home economy. At the same time, it was encouraging the investment of capital in Turkey. The difference was that in the first case purely economic attractions were producing the outflow of private capital, while in the second, political as well as economic advantages were expected to follow. As usual, the government was willing to sacrifice economic interests, if need be, for political advantage. It was in this connection that Secretary of the Interior Delbrück said in the Reichstag: "Considerations involving our political world importance could make the investment of German capital in foreign securities necessary, even under conditions in which from the purely economic standpoint we should perhaps prefer to keep the money at home."² The German government made it a point to demonstrate vigorous support of its investors' interests in Venezuela, Bulgaria, and elsewhere (particularly when naval appropriation bills were coming up), but when it seemed politically best to moderate its support of the Mannesmanns in Morocco and other investors in Persia it did so. In the decisive moment the government even showed itself ready to subordinate the economic interests in Turkey, impregnated as they were with political ambitions, to the more vital political demands of its military alliance with Austria-Hungary. When the Vienna cabinet provoked a European crisis and the ill-will of Turkey by its determination to annex Bosnia and Herzegovina, the German ambassador at Constantinople urged Berlin to restrain Austria in favor of the Porte,³ not to set at risk the fruits of decades of German work in Turkey. But Berlin proceeded on the principle which Chancellor Bülow had already formulated as follows: "For our attitude in the (Near) East and particularly in the Balkan peninsula, where we pursue only economic interests, the wishes, needs, and interests of

¹Feis, *op. cit.*, Chapter V, "Finance and Government in France," especially pp. 133, 148, 153-4.

²Cited by P. Arndt, "Wesen und Zweck der Kapitalanlage im Auslande," *Zeitschrift für Sozialwissenschaft*, N. F., III (1912), 188, from the Reichstag debates of February 11, 1911, p. 20 of the stenographic reports.

³*Die Grosse Politik*, numbers 8980, 8996, and Bulow's statement in number 8992, with comments by Kaiser Wilhelm II.

Private Investments and the Causes of War

Austria-Hungary, which is so close a friend of ours, are and remain the primary determinants."¹ Karl Helfferich, head of the Deutsche Bank's Turkish enterprises and an intimate of the foreign office put the matter succinctly: "In that serious crisis, German policy was thus resolved to subordinate the entire German interests in Turkey, without reserve, to the alliance with Austria-Hungary."² We may conclude, therefore, with the author of "German Governmental Influence on Foreign Investments,"³ that "the investor was assured of governmental support when his interests were endangered *provided that these coincided with the political plans of the government.*"⁴ Mr. Herbert Feis, in his study of European investments before the war, reaches substantially the same conclusion. The policy and action of the German government, he says, "like those of Great Britain and France, were guided by judgment of how national interest was in each instance best served rather than by any outright acceptance of a duty toward the bondholders or any abstract law or right."⁵

The same conclusion holds with regard to the United States. Parts of the illuminating article on "The Relation of Government to Foreign Investment" by a former Assistant Secretary of State have been quoted earlier.⁶ This article expounds frankly the doctrine which has been followed in practice by most governments. Subtle calculation of national advantage, which depends, of course, upon the political objectives of the government, "is the first measure, as the citizens' right is the second measure of the government's support. The government's obligation is its duty to the citizen, but the coefficient of that duty is its duty to the nation." Thus, an American who jumps into a pet preserve of Great Britain or France and engages in enterprises subversive of some policy of theirs would not be abandoned entirely to his fate if his enterprise suffered, but the United States would merely seek equitable damages for him, not specific performance. When American financial advisers were forced out of Persia by Russia and England, a case of this kind arose, and since American influence in Persia was not an important

¹Karl Helfferich, *Deutsche Turkenpolitik* (Berlin, 1921), p. 20 ff., quoted in Rudolf Ibbeken, *Das Aussenpolitische Problem, Staat und Wirtschaft in der deutschen Reichspolitik 1880-1914* (Schleswig, 1928), pp. 265-6.

²*Ibid.*

³Walter H. C. Laves, doctoral dissertation at the University of Chicago, 1927, p. 206. (An abridgment of Dr. Laves' thesis was published in the *Political Science Quarterly*, December, 1928, Vol. XLIII, pp. 498-519.)

⁴Italics added.

⁵*Op. cit.*, p. 183.

⁶See Chapter 4.

War and the Private Investor

national interest the proper policy was to secure an equitable adjustment doing justice in a general way to the American citizens. "If, on the other hand, those advisers had been in a country where American influence was of national importance, the American government must have resisted their dismissal and insisted upon specific performance, although the contracts were no more binding in the one case than in the other."¹ This explains why the difficulties of American investors in the region of the Panama Canal are much more likely to bring strong action from Washington than exactly similar difficulties elsewhere. "In the encouragement of American enterprises abroad," writes E. M. Borchard, "the government lends its support to such as are legitimate and nationally beneficial, the degree of support being measured by the national advantage to be expected."²

Thus far the discussion has concerned international investment friction among the major powers, that is, usually, between capital-exporting countries. The situation is not exactly the same with respect to the relationship between a capital-importing and a capital-exporting country, particularly where that relationship has been, in practice, one between a relatively weak and a relatively strong country. The political relations of capital-importer with capital-exporter seem to have been more subject to disturbance by the direct influence of investment difficulties than have the relations between rival capital-exporters. That is, the relations between the United States and Mexico, for example, have been influenced much more powerfully and directly by the interests of private investors than have the relations between the United States and Great Britain. Thus, private investments have been important as instigators (as distinguished from tools) of diplomatic action mainly in connection with the relations of relatively weak capital-importing countries with relatively strong capital-exporting countries.

The reason for this is twofold. In the first place, governments apply the test of political expediency in their decisions

¹F. M. Huntington Wilson, former Assistant Secretary of State under Knox in the Taft administration, in the *Annals of the American Academy of Political and Social Science*, 68 (November, 1916), 303.

²*The Diplomatic Protection of Citizens Abroad*, p. 400.

Private Investments and the Causes of War

as to the extent and manner of the support which shall be given to investors abroad, and political expediency is much more likely to approve strong measures where the resistance will come only from a relatively weak, capital-importing country, than where strong support of the investor would mean a clash with another major power (another capital-exporting country). Secondly, the potential sources of investment conflict between capital-investing and capital-receiving regions or groups are themselves more numerous, intense, direct, and lasting than those between rival capital-investing regions or groups. The reference here is to basic economic conflicts. Rival lending regions may find themselves in conflict over opportunities for the profitable investment of their capital or over priority of repayment, but the process of international investment establishes between a capital-importing and a capital-exporting country a relatively permanent capital-labor conflict, a creditor-debtor conflict, a conflict of vested interests with groups interested in social reform or revolution, not to speak of cultural conflicts unleashed by the industrialization which accompanies capital investment. These conflicts will be treated in more detail in the next two chapters.

It is also true that those cases of international investment friction involving mainly diplomacy in the service of private investment (as distinguished from private investment in the service of diplomacy) have as a rule tended toward less serious disturbances of the peace than have cases of the other type. This follows simply from the fact that the powers of resistance of the relatively undeveloped capital-importing countries have not been great enough to produce wars of major magnitude, while foreign policy has been most subject to investment influence in connection with conflicts involving just such countries. Interventions to protect lives and property, imposition of laws and governmental policies favorable to alien investors, arbitrary settlement of investment conflicts by ultimatum, outright conquest, colonization, or political subjection, have often taken place in the past

War and the Private Investor

without resulting in disturbances called by the name of war, because one party was too weak to put up a noteworthy resistance against the other.

The relative importance of the two processes by which international private investments become involved in political frictions—that is, as tools of diplomacy and as instigators of diplomacy—may be different in the future. In the first place, the momentum of political expansionism by the great powers, leading to the acquisition of colonies and spheres of influence, achieved by methods of penetration which involve private investments, may be running down. Most of the politically “vacant” territory which Western national states have been engaged in appropriating for themselves during the last half-century is now occupied. Secondly, the capital-importing countries are growing stronger, and as their powers of defense and attack increase with increasing industrialization the disputes which arise between them and the capital-exporting countries will cease to be petty. Since political expansionism by the great powers typically involves private investments as tools of policy, while the instigation of political friction by private investments is relatively more frequent between capital-exporting countries and those that receive capital, the two developments mentioned above may magnify the rôle of private investments as determinants rather than tools of policy.

Thus far we have been asking, What processes have brought private investments into international political friction? Now we turn to a second question, to which the remainder of this chapter is devoted: What types of private investment have been most frequently and characteristically associated with international political friction?

First of all, it is well to make explicit the easily observable fact that the mere size of the foreign investments in a particular country has no direct relationship to the political significance of the investments or to the political friction which may develop around them. In fact, if the coefficient of correlation could be calculated between the intensity of inter-

Private Investments and the Causes of War

national investment friction in different regions and the amounts of foreign investment in those regions, the coefficient would certainly be negative. That is, the countries with the largest amounts of foreign capital within their borders have, on the whole, the least political trouble over that capital. Turn to Chart VI in Chapter I and note that the largest total sums of foreign capital are found in Canada, the United States, and Australia. Then recall some of those areas which have figured most strikingly in the investment friction cases of Part I: Morocco, Tunis, Egypt, Haiti, China, Persia, Nicaragua, Turkey, Samoa, Mexico, Albania. In most of these countries the total amount of foreign investment has been relatively small, in some quite insignificant compared with world totals. It should not be implied, however, that the connection between relatively small amounts of foreign capital and political friction over investments, or between larger amounts and the absence of such friction, is a causal one. Rather, some of the same circumstances which set the stage for political friction over investments also operate to keep the total amount of investment small. The point is that the political significance of international investments in any particular country does not depend upon the amounts invested, but upon the conditions which surround the investments.

As an aid to the discovery of significant surrounding conditions which determine whether investments are likely to be involved in political friction or not, an analysis of some thirty friction cases, most of which have been described in this volume, is tabulated in Table I and summarized in Table II. The method for the selection of these cases was simple and free from conscious bias. It consisted, as described in the Preface, of listing for examination as nearly as possible all the cases in recent times—roughly, within a half-century or so—in which anyone has alleged that international private investments played a significant part in international political friction. Those cases on which enough information was available and which seemed on examination to be rather serious

War and the Private Investor

TABLE I
TYPES OF INTERNATIONAL PRIVATE INVESTMENT CHIEFLY INVOLVED IN THIRTY-FOUR CASES OF
INTERNATIONAL POLITICAL FRICTION

	Type of friction A—between capital- export countries B—between capital- export and capital- import countries	Types of Investment Chiefly Involved (See classification in text for symbols)															
		I Migration of Management			II Political- Economic Character of Receiving Area			III Employment of Investment					IV Political Character of Providing Area		V Objects Sought by Investment		
		2			1 2 3			1	2	3	4	5	1	2	2		
		a	b	c											a	b	c
Abyssinia	AB		x				x								x		
Albania	A		x				x								x		
Bagdad Railway	A		x				x					x			x		
Balkan Railways	A		x				x								x		
China—Japan in Manchuria	AB		x				x					x			x		
China—Russia in Manchuria	AB		x				x								x		
China—Germany in China	AB		x				x					x			x		
China—Britain in China	AB		x				x								x		
China—United States in China	AB		x				x								x		
China—French in South China	AB		x				x								x		
China—Strikes, boycotts, friction connected with industrialization	B	x					x										

Private Investments and the Causes of War

[illegible]

War and the Private Investor

instances of investment friction (involving *private* investments as defined in Chapter I) found their way into this tabulation. The result is presented here in full consciousness of the unavoidable defects in such an attempt at quantitative analysis—the problem of weighting, for example, and the necessary reliance upon personal judgment in deciding how a given case should be classified. Yet what are the alternatives to the conscious compilation and open presentation of such an analysis? Either no attempt at all to decide¹ what types of private investment have been most characteristically involved in political friction, or the presentation of conclusions arrived at by some unconscious process not clear to the reader (or to the author) and probably more dogmatically asserted because less carefully scrutinized.

Table I lists thirty-four instances of international investment friction from all parts of the world, some of them single episodes, others long-continued tensions, and shows what types of private investment were mainly involved in each instance. The classification of private investments used here is drawn from Chapter I,² where detailed explanations appear. The summary in connection with Table II, below, will serve as a key to the symbols at the head of the columns in Table I.

The cases of Tables I and II designated by the letter "A" are those in which the political friction existed mainly between two or more capital-exporting countries interested in one and the same investment area, while the letter "B" designates cases of trouble between a capital-import area and the country or countries from which it has received capital. Of course, in some cases (marked "AB" in Table I) both kinds of political friction appeared in connection with private investments from abroad. The cases containing "A" friction (22 in number), and the cases containing "B" friction (also, as it happens, 22 in number) are summarized separately in Table II, which follows.

¹On the basis of concrete, factual evidence, that is. Of course, one might assume premises to suit himself and deduce whatever answer he likes best.

²Some items are omitted, such as "successful" and "unsuccessful" investments.

TABLE II
FREQUENCY OF OCCURRENCE OF VARIOUS TYPES OF
INTERNATIONAL PRIVATE INVESTMENT IN THE
FRICTION CASES OF TABLE I

	<i>Number of times found associated with friction</i>	
	<i>of type "A"</i>	<i>of type "B"</i>
<i>Types of investment.</i>		
Classified according to:		
I. Migration or Non-Migration of Management		
1. Loans not conferring control—"portfolio investment"	1 ^a	1 ^b
2. Direct investment (total of sub-types a, b, c when duplications eliminated)	22	22
a. Under general laws	(9)	(15)
b. Under special concessions	(18)	(17)
c. Under government by investor, in unorganized territory (Chartered)	(5)	(2)
II. Politico-Economic Characteristics of Investment Area		
1. "Old" countries—industrialized, politically highly organized, capitalistic	2 ^c	3 ^d
2. "New" countries—undeveloped, but possessing industrial techniques, relatively stable political organization of Western European type	0	3
3. "Backward" countries—non-industrialized, lacking techniques and political organization of Western European type, having weak or unstable government	20	17
III. Employment of Investment		
1. Trade and commerce	9	11
2. Transportation and communication	15	13
3. Extractive industries (mining, lumber, oil)	13	15
4. Manufacturing	2	5
5. Finance (banking, mortgage companies, etc.)	9	8
IV. Political Characteristics of Capital-Providing Area		
1. Investments by citizens of great powers	22	22
2. Investments by citizens of lesser powers	1 ^e	1 ^b
V. Objects Sought by Investment		
1. Private profit, business only	14	18
2. Patriotic investments (total of sub-types a, b, c, when duplications eliminated)	20	15
a. Subsidized by investor's government	(11)	(6)
b. Stimulated by it, not subsidized	(18)	(13)
c. Stimulated by patriotic, expansionist visions of individuals, colonial societies, etc.	(3)	(1)

^a Italy and rival alliances.

^b German private debts.

^c Saar, Italy and rival alliances.

^d Soviet Russia, Saar, German private debts.

^e Belgian investments in Congo.

War and the Private Investor

Certain striking facts emerge from an inspection of these tabulations. In the first place, all the cases of international investment friction included in this analysis, with two exceptions, center about the holdings of citizens of the major powers.¹ The cases were not intentionally so selected. Such a result follows, no doubt, from the fact that the major powers have been the chief capital exporters, but it is still noteworthy that the rather considerable investments of citizens of Switzerland, Holland, Denmark, Sweden, and other countries not major political and military powers have hardly ever been centers of serious international political friction.² Secondly, international investment friction has occurred almost exclusively in connection with investments in non-industrialized areas of weak, unstable government—the so-called “backward” countries. This has been true of the “B” cases and still more true of the “A” cases. Only four cases out of the thirty-four here studied, in fact, have involved private investments in “advanced” countries.

Third, the tabulations under heading I of Table II show that those private investments in which management and entrepreneurship, as well as capital itself, crossed national boundaries (direct investments) have been much more prolific of political disputes than have loans to foreign corporations or foreign entrepreneurs. This finding is associated with the previous observation that investment friction characteristically develops in “backward” countries, for management and entrepreneurship always accompanies private capital exports to such regions, while the purchase of foreign corporation bonds or of less than controlling interests in

¹The exceptions are Belgian investments in the Congo, which led to exploitation of the natives and also to international political complications, and the recent friction over German private debts, in which capital from Holland and Switzerland figured prominently.

²No doubt cases of political friction involving the investments of these smaller countries can be found, though most of them would be in close connection with investments of major powers. For example, the Royal Dutch-Shell oil interests have derived their international political significance from their British rather than their Dutch connections, and Belgian investments in China became involved politically because much of the capital which went out from Brussels was really French and was regarded as such.

Private Investments and the Causes of War

foreign enterprises is typical only of capital exports to relatively "advanced" countries. Of the direct investments themselves, those made under special concessions or franchises are found more frequently in our friction cases than those which operate under the general laws of the capital-receiving country applicable to all business enterprises. Operation under special concession, again, represents another characteristic difference between investments in "backward" and "advanced" countries. It is also associated particularly with public utility enterprises of high strategic value, such as transportation and communication developments. It will be noted that those direct investments which operate under general laws are more important as centers of friction between capital-importing and capital-exporting countries than between rival capital-exporting countries.

Fourth, investments employed in all of the five uses tabulated under heading III have been involved, at least occasionally, in political friction. Transportation and communication investments appear most frequently in our cases where friction between rival capital-exporting powers is in question; extractive operations (oil, plantations, minerals, all considered together) come second. The same two types of investment have also provided the most occasions for contention between capital-importing and capital-exporting nations, but with extractive investments leading slightly in order of frequency. Trading investments have not been far behind as centers of trouble; banking and loan operations follow; while manufacturing investments have as yet provided relatively infrequent occasions for international friction. This ranking according to political involvement corresponds closely with the probable ranking according to amounts of international capital invested in these various employments. The conclusion seems to be that the particular employment of an investment has less to do with its potentiality as a friction center than other conditions surrounding it, though the strategic nature of transportation and communication investments as well as the large share of international capital

War and the Private Investor

invested in these forms may be thought to account for their frequency in friction cases.

The fifth and final observation relates to heading V of the tabulations. The motives behind particular private investments cannot, of course, be determined objectively, nor is reliable information on which to base a judgment easy to obtain. Therefore, a high degree of accuracy cannot be claimed for the classification of individual cases,¹ but the general situation is undoubtedly depicted with fair accuracy by the totals of Table II, heading V, which show that "purely business" investments were involved 14 and 18 times in "A" and "B" types of friction, respectively, while "patriotic" investments were involved 20 and 15 times. When one considers that without doubt purely business investments predominate greatly over patriotic investments in the capital exports of the world as a whole, it is evident that private investments in which patriotic motives play a significant rôle are many times more likely to become involved in political friction than investments made for private profit only. All but two of the 22 "A" cases here studied involved patriotic investments in some form—either under governmental subsidy, governmental stimulation, or the stimulation of patriotic political visions such as are entertained by colonial societies. The conclusion suggested is essentially sound, and accords with the observations and the reasoning presented earlier in this chapter: Private investments made for purely profit-seeking ends rarely become subjects of dispute between strong, capital-exporting powers, except where they are associated in time and place with "patriotic" investments which indicate a political ambition on the part of the capital-exporting country's government or an influential group within it. Purely profit-seeking private

¹Sometimes, as in the investment of German capital in Shantung, private investments have been made in a given region under governmental auspices, with direct or indirect governmental stimulation, and at the same time *other* private investments have been made in the same region from purely business motives. This explains the frequent appearance of x-marks in more than one column of heading V (Table I) with reference to the same case, for "patriotic" investments of different types and "purely business" investments may be involved in the same political friction.

Private Investments and the Causes of War

investments, on the other hand, even when not associated with "patriotic" investments, are more frequent centers of trouble between capital-importing and capital-exporting countries.

One might summarize the results of our tabulation in the form of a recipe or formula for the preparation of international private investment difficulties. The ideal case would seem to involve investments:

- (1) By citizens of a great power;
- (2) In a non-industrialized country with a weak and unstable government, or in a partly industrialized or even an advanced country about to experience a social revolution (e.g., pre-revolutionary Russia), or in a region of disputed sovereignty (e.g., the Saar District just after the World War);
- (3) Under conditions which bring migration of management and entrepreneurship as well as migration of capital, especially in connection with special concessions or franchises rather than under the general laws of the capital-receiving country;
- (4) With the object, in addition to profit-making, of serving the strategic political and military purposes of the investing country, as expressed by its government in the form of subsidies or some less direct stimulus to investments deemed of national value;
- (5) In projects connected with the development of transportation and communication routes, especially those having great strategic value from both the political and economic standpoint, or in the extractive industries associated with the early stages of industrial exploitation in non-industrialized countries.

The observations above attempt to portray the factual situation as our analysis of concrete cases of international friction has revealed it. If a satisfactory explanation of these facts is to be evolved it will consist in part, of course, of the line of reasoning advanced earlier in this chapter. That is, political expediency, reasons of high policy extraneous to the

War and the Private Investor

investment affair as such, play a major rôle in determining whether a given investment will become involved in political friction or not. This goes far to explain the striking immunity of investments by citizens of the lesser political and military powers to serious international friction. It is not expedient for such states to press investment conflicts to the point of political crises. The same principle of political expediency helps to explain the particular susceptibility to political friction of investments in areas of weak government, of transportation and communication investments, of certain extractive investments, and of investments involving special concessions or franchises, and of "patriotic" investments, for these characteristics often mean that the investments having them are especially serviceable to foreign policy. Two other principles will be introduced at this point, and, together with what has gone before, they provide the best theoretical explanation of the factual situation revealed by our tabular analysis of investment friction cases. These two principles are, first, that *the likelihood of investment friction varies inversely with the assimilability of the capital to the institutions of the capital-receiving country*, and, second, that *the likelihood of investment friction also varies inversely with the political determinateness of the investment area*. It will first be shown how these factors usually operate to render investments between "advanced" countries peaceful, and then how the relative absence of assimilability and political determinateness in "backward" countries makes such countries likely centers of investment friction. Finally, it will be shown how exceptions to the general rule—that investments between "advanced" countries are not likely to produce political friction while those in "backward" countries are likely to do so—may be accounted for on the basis of these two principles.

Two examples will serve to emphasize the generalization that investments between "advanced" countries do not usually give rise to political friction and will afford a concrete basis for the application of our explanatory principles. First,

Private Investments and the Causes of War

consider the large investments built up abroad by German electrical firms, particularly the German General Electric and Siemens and Halske, in the decades following 1890.¹ These firms controlled street railway companies, power plants, and related enterprises in Russia, Italy, South Africa, Austria, Poland, Argentina, Brazil, and elsewhere. They cooperated with French, English, and Russian banks. Yet their enterprises in the countries named never gave rise to any serious diplomatic controversy, so far as one is able to learn,² though they had characteristics which we have found peculiarly subject to political friction, being direct investments, often under special franchises, in the public utility field. Compare the lack of friction over such investments in these relatively stable, westernized countries with the situation in countries like Morocco and Persia, where, as a German diplomat of wide experience remarked "as soon as a man sets up a shoe shop it becomes involved in international politics."³ Or consider, as the second example, the very large capital imports of Canada.⁴ Since 1900 Canada has been one of the great borrowers of the world. It has been estimated that by 1928 there were, roughly, five and one-half billion dollars of outside capital invested in the country. Of this more than two billion was British, more than three billion American, and the rest came from other countries. The total foreign investment in Canada was at that time about one-fifth of the estimated Canadian national wealth. American capital has entered in large amounts in the form of direct investments—branch plants, enterprises under American management—while that from other countries has been mainly in

¹Cf. Karl Helfferich, *Georg von Siemens* (Berlin, 2d edn., 1923), II, 99, 128, 132-3.

²The only political complications concerning them have been due to the World War.

³Confidential interview.

⁴The discussion of Canadian capital imports and their political significance is based on remarks by Professor Jacob Viner before the Roundtable on Canadian-American Relations, Williamstown Institute of Politics, August 20, 1929. See *Report of the Roundtables and General Conferences at the Ninth Session*, edited by Richard A. Newhall (Williamstown, Massachusetts, 1929), p. 129. Cf. also J. Viner, *Canada's Balance of International Indebtedness, 1900-13* (Cambridge, Mass., 1924).

War and the Private Investor

the form of loans. No political issues have arisen from outside investments in Canada, and none of any great importance are likely to arise. Canada has a stable, reliable government, an orderly judicial system, and the same methods of doing business as has the United States. The American business man and other investors in Canada do not require the political support of their own governments to make sure that their investments will be protected. They receive the same treatment in Canadian courts as Canadian business men and never think of invoking diplomatic pressure.

The fundamental reasons for the absence of investment friction in cases typified by these examples are the high degree of assimilability for foreign capital and the political determinateness of the receiving area. The countries of the world which have been important exporters of capital in the modern era, up to the present time, have shared broadly the same culture, insofar as that culture impinges directly upon investment enterprise. This culture has been characterized by certain legal principles and practices for the interpretation of obligations and the enforcement of contracts, certain principles of private property and public order, and other fundamental modes of thinking and acting with respect to economic enterprise which we associate with modern industrialized, capitalistic, western civilization. The countries in which we have found capital imports rarely involved in political friction—those countries that we, with a good deal of ethnocentrism, call “advanced” countries—have substantially the same cultural characteristics as those just described for the capital-exporting countries. Their modes of governmental supervision over business do not differ radically from those of the capital-export regions, they follow roughly similar rules in the organization and control of their courts, they do not entertain any great prejudice against the industrial and other practices of the investors from abroad, which are not too unlike their own. They take roughly the same things for granted as do the capital exporters themselves, live on similar fundamental assumptions, have comparable value scales, re-

Private Investments and the Causes of War

gard roughly the same actions as fair or unfair. These circumstances give to private investments that come in from abroad what is here termed a high degree of assimilability, which implies relatively infrequent clashes with the people or the government of the capital-receiving area.

Furthermore, these "advanced" countries where foreign investments seldom get into political trouble are characterized, even when small, by relatively stable, established, and respected governments; while the potential capacity of the population to offer military resistance against an invader or to bring world public opinion and perhaps a political ally to its aid, is not insignificant. In other words, there is no political vacancy, no political vacuum, in such countries.¹ The question of sovereignty is not an open question, and therefore the governments of foreign investors are not tempted to turn the investments of their citizens to account as devices of political penetration. This is the "political determinateness" which is here suggested as the second factor in explanation of the rarity of investment friction in industrialized, politically stable countries.

These two factors, the capacity to assimilate investment capital, and political determinateness, combine in "advanced" countries to produce a situation in which foreign investors never think of relying for the security of their undertakings upon diplomatic pressure from their home governments, while the governments of the great capital-exporting nations, on their part, entertain no ideas of achieving territorial expansion or political domination by means of the investments of their citizens. In other words, investments from abroad under such circumstances lose their political earmarks; they are, for most purposes, de-nationalized. The governments of the capital-importing countries do not anticipate, nor need they seriously fear, efforts of outside powers to dictate changes in their laws and customs or to influence the granting of economic privileges; hence, they can con-

¹Cf. R. G. Hawtrey, *Economic Aspects of Sovereignty* (London and New York, 1930), pp. 33, 52-57.

War and the Private Investor

template the entrance of foreign capital with some degree of complacency or even hospitality, rather than with the antagonism inspired by apprehension. All these statements are untrue, in fact their opposites are usually true, when we turn to the consideration of capital investments and political friction in "backward" countries.

The institutional arrangements which prevail in those countries that, from the modern western viewpoint, are industrially and commercially retarded and politically unstable or insecure, are such as to provide a low degree of assimilability for capital which comes from the institutional background of England, France, Germany, America, and the other capital-exporting regions. The legal traditions and the courts of such countries are not well adapted to the defense of contractual obligations and private property rights, at least not in the sense essential to the smooth functioning of western business methods. There may be "law and order" of a kind, but the kind of public order which appeals to a folk society of the South Seas or to such radically un-western civilizations as those which confronted the first modern investors in Morocco, Persia, or China is not "law and order" at all from the standpoint of a western business man. He finds frequent occasion to desire the aid and protection of his home government, which may be accorded through extra-territoriality, interventions, diplomatic interposition, and other political means. Not only the absence of the institutional foundations necessary to profitable foreign investment leads to political implications in such countries, but the absence of certain essential technical services—considered public services and ordinarily supplied by government in western countries—has the same tendency. This has been one factor leading, for example, to the construction of railway and telegraph lines in "backward" territories under subsidies from foreign states, with attendant political complications. The migration of capital to regions unaccustomed to the institutional basis of modern western capitalism, in other words, almost inevitably implies a concomitant migration of

Private Investments and the Causes of War

government—"law and order" and public services—of the type familiar to the industrialized west. At least, governmental ideas adapted to the functioning of capital investments must go with the capital, and the situation is obviously one suited to the development of political friction. Concrete examples to illustrate the relative unassimilability of private capital in "backward" countries, with resulting political difficulties, are hardly necessary here, since most of the descriptive matter in this volume bears on the point. The aids which governments may give to private investors abroad, detailed with numerous illustrations in Chapter 6, are almost without exception applicable to investments in politically weak and industrially undeveloped countries rather than in "advanced" ones. Chapter 14 will also develop further the line of thought suggested in this paragraph.

As for the factor of political determinateness, it is almost too obvious to need stating that in non-industrialized, politically weak countries the temptation for strong, capital-exporting powers to indulge in imperial expansion is at its maximum. Some "backward" areas are true political vacuums when the first investor arrives; they are politically vacant, in the sense that they have no government whatever of the European type, but perhaps only a loose and local tribal organization. Others have a government, but one too feeble to offer serious resistance to a modern western power. Still others are in a state of chronic revolution. In all these cases, quite contrary to the situation in "advanced" countries, the question of sovereignty is an open question, and the political significance of foreign investments tends to become very great.

We have already observed that the factors of assimilability and political determinateness which characterize "advanced" countries tend to de-nationalize foreign investments made in such countries. Just the opposite is true in the "backward" regions of the world. This was strikingly illustrated when the French Foreign Office in 1902 undertook through its consular officers to arrive at an estimate of the amount of

War and the Private Investor

French capital invested abroad. "In the poorly policed countries where our nationals have daily need for recourse to consular protection," read the resulting report, "the constant manifestation of French interests continues to make it possible to estimate their value. But where liberal institutions assure public security, the same interests avoid, rather than seek, official attention, and an inquiry like this finds itself deprived of its best source of information."¹ The assimilability or non-assimilability of private capital to the institutions of a country in which it is invested, and the political stability or instability of government in that country, thus determine very largely the degree to which it remains national, and therefore the degree to which any conflicts in which it becomes involved are likely to take an international, political form.

What of the exceptions to the general rule that private investments in "backward" countries do, and in "advanced" countries do not, become involved in international political friction? It will be recalled that among the cases of Table I there were four such exceptions: investments in Russia, in the Saar District, in Italy at the time rival alliances were building, and recent difficulties over German private debts.² It is an important validation of the principles of assimilability and political determinateness that they not only explain the general rule but also account rather neatly for these exceptions. In Russia, friction over private investments arose as a result of the social revolution which took place there in 1917. Russian institutions suddenly came to have almost nothing

¹In Argentina and Uruguay, for example, the evaluation of French holdings presented considerable difficulties. Frenchmen who migrate to such countries arrive with modest capitals, become rich, "but the fortune thus acquired can be counted only partially as an asset of the mother country, for in the great majority of cases it is destined to be denationalized. French firms, French industries, are in the hands of Frenchmen who make Argentina their country by adoption and whose children will usually be Argentine citizens." Not so, however, in countries like China. (*Journal Officiel*, September 25, 1902, report on the French fortune abroad, by the Ministry of Foreign Affairs.)

²The Russian and German cases were tabulated as "B" cases, the Italian as an "A," and the Saar instance as both "A" and "B."

Private Investments and the Causes of War

in common with those of the capital-exporting nations, insofar as the treatment of private investments is concerned. Russia, in other words, passed from a condition which represented a fairly high degree of assimilability for private foreign capital, to extreme unassimilability, and political friction arose over foreign investments which were in Russia and could not be withdrawn. In the Saar District it was not the factor of assimilability, but political determinateness which was involved. The Treaty of Versailles left the ultimate sovereignty over the Saar District an open question, to be settled by a plebiscite in 1935. It was under such conditions of political indeterminateness that some of the characteristic phenomena of politico-economic "penetration" developed. In the Italian case the open question was not one of sovereignty, but which of the two rival alliances then forming in Europe should count Italy in its membership—political indeterminateness in another form. German investments went to Italy to strengthen the Triple Alliance; French investments were withdrawn as an expression of political tension over Italy's desertion of her former friends. In the German private debt case it is again a sudden decrease in assimilability, due this time to the national socialist revolution, which is responsible for the friction. Not merely default as such, but an apparent determination to redefine property and contract rights of non-Germans in ways that subordinate them to "national" purposes, has particularly aroused outside powers.

There are also exceptions of another sort to the general rule that private investments in "backward" countries do, and in "advanced" countries do not, become involved in international political friction. Certain "backward" countries, that is, show relatively little tendency to become centers of investment friction. That is true, for example, of the less developed Latin-American countries with respect to the investments of European nationals. Friction has developed between these capital-receiving countries and European capital-exporters (the "B" type of friction) on many

War and the Private Investor

occasions, to be sure, but political difficulties among the European capital-exporting nations themselves over investments in this region (the "A" type) have been almost entirely absent. Neither type of friction has compared in intensity, furthermore, to the political difficulties that have developed around European investments in northern Africa, the Near East, and China. The explanation turns on the principle of political determinateness. By reason of the Monroe Doctrine of the United States this particular region, though its governments were often weak, could never be considered politically vacant by European nations, and as a result relatively little political friction developed over their investments in the region.¹ Similarly, once a "backward" country has been incorporated into the colonial empire of a great power and the accomplished fact has been accepted by the other powers this country usually ceases to be the seat of serious investment friction. This result is partly due to the installation of political and economic institutions by the imperial power which increase the assimilability of private capital from abroad, partly to the fact that the entry of capital from other sources than the imperial nation may be discouraged in various ways, but mainly, perhaps, to the fact that the political fate of this particular "backward" area has definitely been determined. Let the question of sovereignty be reopened, as by the development of a strong independence movement, and foreign private investments may once more become centers of political friction.

There are other ways by which the assimilability of an area for capital from abroad may be increased, or its political status rendered more definite. Thus, certain countries which not so long ago were "backward" are rapidly adapting themselves to the industrial culture of the West and at the same time are losing their political weakness. Persia might be mentioned as an example. If the analysis in this chapter is correct, such developments should tend to decrease the likeli-

¹The same cannot be said of the investments of the United States, of course.

Private Investments and the Causes of War

hood of investment friction arising in these countries.¹ The political determinateness of capital-importing countries is also increased by every development which tends toward the building up of a strong world federation which can effectively guarantee the territorial integrity and political independence of its members.

SUMMARY

The conclusions of this chapter may now be surveyed: In actual cases of investment friction the two rôles of private investment in diplomacy are usually intertwined; that is, the investments serve both as tools and as determiners of policy. Nevertheless, in serious disputes between strong states the rôle of private investments as tools has been the predominant one. Conflicts between great powers over private investment matters have rarely, almost never, reached a state of dangerous international tension except in cases where the powers have been led into conflict by the pursuit of political policies extraneous to the investment affair itself. The best explanation for these facts runs in terms of the way in which those in charge of foreign policies interpret national advantage. Where investments can be regarded as economic aids to established lines of foreign policy, they are supported most vigorously; investments receive least vigorous political backing where they are not in any sense tools of national policy or where they run counter to national policy.

When we turn to the consideration of political friction between strong, capital-exporting states and weak, capital-importing states, on the other hand, difficulties directly incited by investment conflicts are relatively more important. There are more potential economic conflicts between capital-receiving and capital-lending regions than between rival lending regions, and political expediency more readily permits conflicts with weak opponents to develop into acute

¹Japan traveled this road rapidly in the past, and now private foreign investments in Japan are hardly more likely to become involved in political friction than are similar investments in other "advanced" countries.

War and the Private Investor

forms than similar conflicts with strong opponents. Up to the present day, investments have been involved in more serious friction as tools than as instigators of diplomatic policy, but there are reasons for thinking that the situation may be changing.

As for the types of private investment most frequently involved in political friction, our tabulation points to investments (1) by citizens of great powers, (2) in non-industrialized, politically weak countries, (3) under special concessions or other forms of foreign entrepreneurship, (4) for political purposes, (5) in transportation and communication projects. The institutional characteristics of the capital-receiving area, which determine the assimilability of capital from the western, capitalistic world, and the political determinateness of the capital-receiving area, go far to determine whether or not private foreign investments will bring political friction.

CHAPTER 14

Potential Conflicts Between Capital-Importing and Capital-Exporting Countries

IN THIS and the subsequent chapter the aim will be to uncover some of the basic elements in investment friction¹ by devoting attention to the potential investment conflicts that exist (a) between countries which stand in the relation of capital-importer and capital-exporter and (b) between countries which are competing exporters of capital.

It is a fact of general experience that the debtor does not love his creditor, and a debtor region is likely to develop a hostility toward a creditor region. This is true within the confines of a single nation: witness the undercurrent of latent hostility toward "Wall Street" and the East which has periodically come to the surface in the middle-western United States. When the creditor region is of one nationality and the debtor region another, the mingled pride, fear, and suspicion of sharp dealings which enter into the psychological relation of debtor toward creditor join with the popular reaction against foreigners in general to produce an important general source of investment conflict. This creditor-debtor conflict arises partly out of the other specific forms of conflict between debtor and creditor areas to be described in this chapter. It may not be violent enough in ordinary times to generate serious political friction in itself, but it forms an

¹See note on terminology, second paragraph of Chapter 13.

War and the Private Investor

unfavorable background against which any acute conflict takes on a more sinister appearance.

The history of the United States, until a few decades ago a great debtor to the world, provides ample illustration of the phenomenon under discussion. Popular antipathy against foreign capital ran high in the early days of the republic and helped to put an end to the first United States Bank, since the Bank was believed to be under the domination of British financial interests. Later, foreign capital went into American banking to such an extent that fear arose lest the banking function be concentrated in the hands of a few wealthy foreigners, and Pennsylvania in 1824 prohibited the transfer of bank stock to non-citizens of the United States. The same state, when rechartering the Bank of North America in 1825, prohibited any foreigner, save a citizen of Holland, from holding stock unless he had declared his intention of becoming naturalized.¹ "British gold" was long regarded as a sinister influence. During the free silver campaign of 1896 multitudes of Americans held that British creditors, who naturally favored the maintenance of the gold standard in the United States, were using their money to interfere in the domestic affairs of the country. The result was intense anti-British feeling. In the twentieth century the situation changed. The United States became one of the most conspicuous creditor regions, and now it was "American gold" which was denounced in Europe, in Latin America, and elsewhere. The Wall Street bogie was even used occasionally in election campaigns to frighten patriotic Canadians, who were pictured by at least one political orator as destined to become hewers of wood and drawers of water for American capital.

Domestic disputes between employers and workers over wages, hours, recognition of unions, and conditions of labor may be very bitter, but they do not ordinarily set two states or provinces—that is, two regional or local governments, or two subordinate divisions of a national government—against each other. This is true even though the capital may be owned by citizens of one political division (e.g., New York) and the workers may be citizens of another (e.g., Alabama). When capital-labor relations cut across national boundaries,

¹Davis R. Dewey, *State Banking before the Civil War* (Washington, U. S. National Monetary Commission, 1910), p. 28.

Private Investments and the Causes of War

however, disputes involving capital investors of one country and workers of another may easily bring two governments into conflict, since one rules the territory in which the difficulty arises and the other claims the right, under the existing system of international law, to see that the interests of its nationals in that territory are adequately protected. Thus one state may be pitted against another, each representing the interests of a group of its nationals. Furthermore, lurking national antagonisms and prejudices render capital-labor conflicts that cut across boundaries infinitely more complicated than their domestic counterparts. A concrete example vividly illustrates the truth of this observation.

On January 18, 1933, a group of rioting workmen, nearly 200 strong, battered their way into the offices of the Singer Sewing Machine Company's branch in Yokohama, Japan, smashed typewriters and furniture, damaged safes, broke doors and windows, poured ink on ledgers, and destroyed installment sale contracts and other valuable documents. This riot climaxed a series of labor troubles reaching back into the previous summer. The ambassador of the United States immediately requested the Japanese government to make an investigation and to provide adequate police protection for American life and property. Since it turned out that the building used by the Singer Sewing Machine Company was the property of a Swiss citizen, the Swiss legation took a similar step. The Japanese Foreign Office appears to have handled the matter satisfactorily; at least, newspaper dispatches revealed no subsequent diplomatic developments. The incident did not lead to serious international political friction, therefore; but the point is that this rather ordinary capital-labor conflict, of a type not uncommon in domestic disputes of the same sort, immediately involved the political departments of two major powers. Furthermore, it brought into play the emotional antagonisms of two peoples, powerfully stimulated, as is usual in such cases, by sensational and nationally biased reporting in their respective newspapers.

The conflict was, in fact, purely as a capital-labor dispute, not especially noteworthy. Newspaper dispatches spoke of a strike against pay reduction in the previous summer, of a request by the general-secretary of the Japanese Federation of Labor for an interview with the Singer general manager, which was refused, and of the fact that the general-secretary was an upholder of legal methods, while the mob was led by younger hot-heads who took matters

War and the Private Investor

into their own hands when the company refused to deal with any labor organization. Each side accused the other of hiring thugs. So far this is the old story, familiar in many a domestic labor dispute. A novel element enters in a reported difference over the question of retirement pay to workmen leaving the company's service; here a diversity in American and Japanese customs appears to have played a part. But most important from our point of view, and directly associated with the migration of capital across national boundaries, was the facility with which international animosities attached themselves to the original capital-labor controversy and gave it potentially grave political implications.

Certain newspapers in the United States reported the affair sensationally as an outburst of anti-Americanism. The more sober correspondent of the *New York Times* wrote that "this interpretation appears far fetched, in view of the fact that salesmen had been on strike for many weeks," but he went on to point out that there is a tendency in such situations for national feeling to develop: "The fall in yen exchange has, in the eyes of unthinking Japanese, made all Americans here rich, and some are foolish enough to suppose this advantage accrues at Japan's expense. Many American companies, including Singer, have a long record of friendship with their Japanese employes, who value the higher pay the foreigners give. When disputes arise and are embittered by long duration, racial animus is often injected by agitators, but the disturbance at the Singer Company was primarily a strike riot, not a manifestation of Anti-Americanism."¹ Nevertheless, what starts as a simple labor disturbance may easily take on nationalistic complications where foreign investments are involved.

¹*New York Times*, January 20, 1933; also January 19. The account which multitudes of Americans read in *Time*, a weekly "newsmagazine," further illustrates the nationalistic aura which surrounds capital-labor conflicts that cut national boundaries, and also how these lend themselves to sensationalizing by news organs in quest of interesting stories. The report leads off with a notice which the Singer branch manager had found posted on his door some weeks earlier: "Look Out! Brute-like American by name of Aurell dismissed his company's 1,000 employes who logically worked for the company's interests, yet obtained not a sen at their retirement from services. Aurell dares to discharge the employes thus cruelly and is still indifferent. There is no knowing what he further attempts to kill the employes to starvation. Neighbors! Be very careful about Aurell whose inhuman acts know no bounds. Expel Aurell from Japan. (Signed) All Japan Singer Sewing Machine Employes Union." Then follows a dramatic account of the approach and depredations of the rioters. "All this took 20 minutes. Police, who must have seen the mob of 200 approach, arrived tardily, arrested 138. . . . Last week the United States Embassy and the Swiss Legation in Tokyo hotly protested. . . . In previous anti-Singer riots, marchers have carried anti-foreign banners: 'Down With Foreign Capital!'; 'The United States Is Rich But Little Japan Can Whip It!'; 'Give Foreign Factories To

Private Investments and the Causes of War

It may be said of private international investments in "advanced" countries, however, that capital-labor conflicts connected with them have not ordinarily created difficulties strikingly different from those connected with domestic enterprise, nor have their labor troubles been responsible for serious international complications or even noticeable ill-will.

For the most part such organizations as the European affiliates of the General Electric Company, the International Harvester Company, and General Motors, like the Bosch Magneto Company, the Agfa film sales organization, and other foreign-owned enterprises in the United States, have adapted themselves to the countries where they operate and have merged into the general economic background of those lands. Their managers on the ground include many native citizens of the capital-receiving country. Their policy is usually to pay the prevailing rate of wages (or higher, as in the case of certain American companies in Europe), to follow the practices of native employers in such matters as dealing with unions, and often to join the recognized associations of employers in their industries.¹

The situation is different when the investor enters an industrially undeveloped country. In such areas the labor problems raised by the introduction of foreign capital and capitalistic methods have taken various forms, ranging from the revolting cruelties practiced on certain African tribes by collectors

Japanese Workers!' Last week no such banners were reported. . . ." The critical reader will notice that this colorful story introduces insinuations against the Japanese police, makes the diplomats protest "hotly" the Associated Press reported a "request" for immediate investigation), and uses the banners alleged to have been carried on previous occasions to impart the anti-foreign tone which the riotous strikers on this occasion apparently neglected to supply. (See *Time*, January 30, 1933.)

¹Occasionally difficulty has arisen over threatened or actual introduction of a considerable group of workers below managerial grade from abroad. When the Harriman Company, for example, announced its intention of bringing one hundred Americans to its metal works in Upper Silesia, at a daily wage of \$5.60 plus transportation, the Polish labor organization protested, pointing to 46,000 unemployed in that district, and requested the government to intervene. (Frank A. Southard, Jr., *American Industry in Europe* [Boston, 1931], p. 164.)

War and the Private Investor

of rubber, through virtual enslavement or peonage of other peoples (forced labor), to the creation of a factory proletariat with strikes, lock-outs, and boycotts on a quite modern line in Chinese cities. The capital-labor problem in industrially less advanced regions also merges with the land problem, the destruction of native social organization by the absorption of small plots or communal lands into large estates, and the owner-tenant conflict. All these problems involve strong elements of conflict, which become potential sources of political friction between capital-providing and capital-receiving regions. Of course, the very conditions which make the capital-labor problem take these forms in "backward" countries also render the inhabitants of these countries impotent to express their antagonisms forcefully against foreign exploiters. These conflicts cannot, for the present, rise to the dignity of international war, simply because one party is no match for the other. In the immediate future such conflicts will doubtless continue to manifest themselves in scattered disorders and riots, anti-foreign movements, boycotts, and in colonial insurrections within the dependencies of great powers, rather than in wars or threats of wars. A longer view into the future, however, can easily picture a situation in which the peoples of Asia, Africa, tropical America, and the islands of the sea have taken over enough of the industrial culture to be no longer negligible in military combat against their tutors in industrialism. It is not beyond the bounds of the possible that Soviet Russia might provide powerful technical support in some future alignment of the "exploited" nations of the earth against the "exploiting" nations. These possibilities suggest that the capital-labor conflict, in its many phases, may some day be the source of the most intensely serious political problems connected with international capital movements.

Some concrete instances will illustrate the various forms which capital-labor conflicts may take in non-industrialized areas under the impact of foreign investment. When King Leopold II of Belgium secured the coöperation of explorers and financiers to launch

Private Investments and the Causes of War

the International Association of the Congo in 1879 one of the most ruthless chapters in the history of native mistreatment by foreign exploiters was begun. The object of the Association was to make a profit from the rubber and other products of central Africa, and also to increase the glory and power of the King by establishing an African empire. The methods employed to force the defenseless inhabitants of the dense tropical forests north of the Congo River, later known as the Congo Free State and now as the Belgian Congo, to gather rubber for the white newcomers were unspeakably cruel. They included frequent shootings, the holding of women and children as hostages against the delivery of certain amounts of rubber and ivory ("taxes") by the men, and such punishments as the chopping off of hands. Perhaps even more devastating than these atrocities were the indirect effects of the concessionaire system and the destruction of native social organization upon native life. Whole areas were swept by famine and decay. Exposures eventually led to action by the Belgian parliament, which made the Free State a Belgian colony in 1908 and endeavored to substitute a better regime.¹

The same problem which led to the atrocities of the Congo Free State confronts the foreign investor in many countries, namely, how to secure an adequate labor supply where the native population is not subject to pecuniary inducements. Not often are such extreme methods used in its solution, but the resort to "forced labor" or to various forms of pressure which have a more legitimate sound but amount to much the same thing, are a not uncommon result. A recent writer on Mexico² relates two instances which illustrate the problem. A foreigner with strong humanitarian sympathies acquired a plantation in Mexico. Finding that the prevailing rate of wages for hacienda work in his vicinity was twenty-five centavos a day, he determined to double that amount; fifty centavos seemed little enough. The peons were duly hired and began work. At the end of the first week they were paid the higher wage, and everybody seemed pleased. But Monday morning when the gates were thrown open not a worker appeared; operations came to a standstill. A few interviews shortly established the fact that the peons, accustomed to making ends meet on twenty-five centavos a day, had earned enough in a week to keep them two weeks. Why, then, they reasoned, work any more? Hard as this behavior may be for a person reared in a pecuniary culture to understand, it

¹Cf., Parker T. Moon, *Imperialism and World Politics* (New York, 1927), pp. 85 ff.; E. D. Morel, *Red Rubber* (Manchester, 1919), *The Black Man's Burden* (Manchester, 1920); and other books cited by Moon.

²Stuart Chase, *Mexico, A Study of Two Americas* (New York, 1931), p. 220.

War and the Private Investor

seemed perfectly logical to them. The philanthropic employer swallowed his principles and reduced wages to twenty-five centavos in order to insure a steady labor supply! The second instance had a more tragic outcome. Labor was hard to get for a sugar plantation in Tehuantepec. The neighboring Zapotec Indians could not be interested. Thereupon the company bribed a local political boss to arrest the Indians on trumped-up charges and deliver them at so much a head to the hacienda. The victims made a few polite motions of an agricultural nature, but soon escaped to their village. Here were fine mango trees, food like manna from heaven. Why work for aliens in hot fields? In desperation, the company finally sent its men by night and cut down the mango trees, starving the village into dependence upon employment.

The land question is intimately bound up with the exploitation of labor, and, indeed, with many of the disastrous effects on native social life which modern anthropologists point to as the results of the imposition of an alien industrial culture on non-industrial peoples.¹ A quite common device in Africa has been for private companies to acquire large tracts of the best land by lease or concession, so that the natives become trespassers on the soil that formerly yielded them food and must either starve or abandon their accustomed way of life and go to work for the companies. Will the new point of view which the findings of the anthropologists, the efforts of humanitarians, and the machinery of League of Nations mandates supervision have introduced into colonial policy during recent decades suffice to prevent innumerable conflicts between native populations and foreign employers or landowners from developing into serious political friction, perhaps international war, as the "backward" peoples grow stronger? Progressive colonial administrators are here and

¹The labor and social problems that may be created by the unrestrained activities of foreign capital, especially through its acquisition of land, are clearly pointed out in a study by Melvin M. Knight, *The Americans in Santo Domingo* (New York, 1928). See especially pp. 24, 142-3, 160, 164.

Readers particularly interested in the crucial question of land policy with respect to the fate of non-industrialized native populations will do well to examine Raymond Leslie Buell's *The Native Problem in Africa* (New York, 1928), the documentation of the Mandates Commission of the League of Nations, and the articles and bibliography on "Native Policy" in the *Encyclopædia of the Social Sciences*.

Private Investments and the Causes of War

there taking steps to defend primitive peoples against the organized rapacity of industrialism. The British soap firm of Lever Brothers, for example, which has large concessions in the Belgian Congo, was unable to secure similar privileges in Sierra Leone and the French Ivory Coast, because the governments believed them incompatible with native interests.¹ The rubber concessions of Firestone in Liberia have lately come under the scrutiny of the League of Nations, whose experts have studied the problem of harmonizing the interests of small native cultivators with the labor needs of the Firestone plantation.

Thus far we have seen that the migration of capital imparts a new twist to the traditional creditor-debtor, capital-labor, landowner-tenant conflicts by installing them athwart international boundaries, thereby making them potential sources of international friction. Still another form of conflict which may be brought into play by foreign investment results from the cultural diversities between capital-exporting and capital-importing countries. The export of capital frequently means nothing less than the export of the industrial revolution, with its attendant strains upon the social fabric of the country suddenly exposed to its drastic influence. We are familiar in the West with the turmoil and struggles that have accompanied the industrialization of England, the Continent of Europe, and America; indeed, these countries still grapple with the multifarious problems pressed upon them by the rapid economic changes of the last two centuries. How much more acute, in many respects, may be the difficulties of social readjustment experienced by a country which has the industrial system thrust upon it all at once, without the necessity of a gradual accumulation of capital and techniques to slow down the pace of the transition!² That is what the migration of capital from highly industrial-

¹Buell, *op. cit.*, II, 511.

²Of course, these countries also have the benefit of previous experience to guide them in mitigating the undesirable effects of industrialization. They do not have to re-invent factory legislation, for example.

War and the Private Investor

ized to non-industrial countries brings about. The conflicts expressed by the wrath of Lancashire hand-workers against the machines over a century ago in England also exist in all their fury where the industrial revolution arrives full-blown with imports of foreign capital. But there is the additional complication that the disturbing changes are initiated in such cases, not by natives, fellow-citizens, but by outsiders, aliens, foreigners. Into the familiar conflict between the old, non-industrial culture and the new, ever-conquering machine technology of industrial capitalism an anti-foreign element is thus injected when capital crosses boundaries.

The clash of cultures associated with foreign investment is at its maximum, of course, in countries like China, where the native culture is not only non-industrial, but rests upon a stable, firmly rooted social system of its own, whose every fiber points a contrast to the industrial West. From the first fateful wedge driven by the early traders, through the Opium War by which foreigners forced their way into treaty ports, past the Boxer uprising, down to the revolutionary movement of Sun Yat Sen and the external and internal conflicts which beset China today, contacts with the West have been disintegrating the old Chinese civilization. Investments from abroad have had their share in this process.

Look at investments in China as they must appear to the Chinese masses. People practicing their accustomed modes of production, their ancient family and community life, and the forms of art and religion sanctioned by long usage, suddenly find all this disturbed and their lives unsettled by foreigners who introduce articles from abroad more cheaply than native craftsmen can make them, who ruin the livelihood of native transport workers by the competition of their iron horses, who put whole villages to work in factories or mines, and who desecrate the sacred places with tunnels and steel rails. Each new-fangled contraption from the West has upset some phase of the delicate balance that characterized the old Chinese economy.¹ The first railway, for example, was

¹Cf. Henry Kittredge Norton, *China and the Powers* (New York, 1927), p. 170.

Private Investments and the Causes of War

laid between Shanghai and Woosung (twelve miles) in 1875. The permit issued by Chinese authorities made plain that only animals were to be used as motive power, but Messrs. Jardine and Company, ignoring the protests of the natives, soon installed a steam locomotive. All the prejudices of the conservative Chinese culture were aroused. The populace feared for the graves of ancestors, and the more superstitious trembled lest the "luck" of the land should be disturbed. Most men disliked the probable extension of foreign influence. No sooner was the road in operation than the porters, carters, wheel-barrow men, and others dependent upon the old carrying service between Shanghai and Woosung found their occupation gone. With starvation staring them in the face they rose in desperation and decided to keep the Western innovation permanently inoperative. Some walked deliberately in front of the engine. Petitions poured in upon the provincial authorities. It was not until a laborer had been run over and killed that the central government directed the provincial to have the concession cancelled. After troublesome diplomatic negotiations, the railway was repurchased in 1877, torn up, and shipped to Formosa.¹

It is only within the last few years that street cars could be operated on the streets of Peking, because of the opposition of the 28,000 rickshaw pullers who earn their bread by transporting people from place to place.² A similar conflict lies behind the frequent attacks on steamers in the upper reaches of the Yangtze. For centuries trackers have made their living towing junks against the swift current. It is estimated that three million people were dependent upon these trackers for a livelihood.³ When machinery appeared, it brought doubt and despair to the displaced workers, and, unaccustomed to the rules of competition as practiced in the West, they attempted to save their livelihood by driving out the steamers. Particularly frequent attacks developed in 1923-24 when the Dollar lines and the German Stinnes Company opened service through the gorges

¹Mongton Chih Hsu, *Railway Problems in China* (New York, Columbia University Studies, 1915), pp. 20-21; Herbert H. Gowen and Josef Washington Hall, *An Outline History of China* (New York and London, 1929), pp. 289-90.

²Norton, *op. cit.*, p. 171.

³*Ibid.*

War and the Private Investor

to Ch'ungking, competing with the British, Japanese, French, and Chinese lines already established. The Chinese boatmen on this part of the river are noted for their skill and bravery, and when thousands of them saw their jobs disappearing they sometimes took violent measures. Brigands and provincial chieftains championed their cause against the foreigners. When a steamer was fired upon swift retribution usually followed from the gunboats of the powers, stationed along the river to maintain law and order in the Western sense.¹

The transportation services have felt the impact of western technological culture most severely in China, for there as elsewhere an early step in the invasion of foreign capital has been the construction of modern facilities for transport and communication. The estimate that twenty per cent of China's manpower is employed in transportation, while five per cent is sufficient to provide a much superior service in western countries,² indicates the startling magnitude of the social changes which may be effected by the modernization of this aspect of China's economic life alone. And experience has shown that a revolution in transportation is merely the beginning; it initiates vast reorganizations in the life of a people through transformation of a local handicraft economy into an economy of extended markets, specialized production, and wide interdependence. The impact of such changes is already beginning to be felt in China with the disappearance of certain trades, the starvation of displaced craftsmen, the disorganization of village communities, the uprooting of family traditions, the rise of proletarian masses in the cities, and a general breakdown of the morale based on a disappearing culture.

The number of laborers now working under the factory system in China is said to be a few hundred thousand at most. Nevertheless, a definitive breaking away from the family system is perceptible. A regular working class is slowly forming in the cities, a class made

¹Gowen and Hall, *op. cit.*, pp. 455-6.

²Introduction by W. Tetley Stephenson to M. J. Cheng, *Communications and Economics in China* (London, 1930).

Private Investments and the Causes of War

up of whole families who have definitely left the soil. Here is a class peculiarly susceptible to anti-foreign feeling. The foreigners own and operate many of the mills, and, as we have already seen, labor disputes under such conditions are likely to develop antagonism against the employer which easily passes into hostility against the foreigner. The Seamen's strike of 1921 led into general anti-British feeling. A labor dispute at a Japanese cotton mill in 1925 resulted in the death of a Chinese rioter at the hands of a Japanese guard. Students arranged a demonstration, "and their diatribes were aimed, not at employers as such, but at the foreigners as murderers. What under normal circumstances would have been a labor outbreak became, under the conditions prevailing in China, an anti-foreign demonstration," and led directly to the nation-wide outburst against foreigners in June, 1925.¹

Many more illustrations could be given to show the multitudinous ways in which conflicts may arise when foreign investors carry their revolutionary operations into a cultural environment different from their own. Mining enterprises in China, for example, have aroused the hostility and encountered the obstruction of local and provincial authorities, the local gentry, and the people. At times they have had to suspend operations even when armed with permits from the central government, and at other times the central government has had to repurchase mining concessions to appease an outraged populace. This hostility has been due partly to local economic interests, partly to violations of sacred places such as the graves of ancestors, and partly to the superstitious dread of believers in *feng-shui* (a "wind-water" magic whose practitioners search out auspicious land formations) that mines and railroads will alter the lucky influences of a countryside.² Nor need such illustrations be drawn only from China, though China has been chosen as the best example for our purposes. In Morocco a serious anti-foreign outbreak was precipitated when a railway company at

¹Norton, *op. cit.*, p. 177; Gowen and Hall, *op. cit.*, pp. 497-501.

²W. F. Collins, *Mineral Enterprise in China* (London and New York, 1918).

The following excerpts from a concession issued to the Yunnan Syndicate, a Franco-British mining company, in 1902 indicate some of the problems raised by mining in China:

"Article VII. In order to avoid all cause of trouble the Yunnan Syndicate, Limited, undertakes to avoid all operations or encroachments during the construction of the means of communication or the working of the mines, which may damage houses, fields, or graves. The Syndicate will also respect the customs and usages of Yunnan, the mines worked by the State, and the rights acquired by private persons.

"Article XVI. Since the Imperial Government and the Provincial Authorities share in the profits realized by the Syndicate, they have a pecuniary interest in safeguarding the mining enterprises of the Syndicate. In consequence, orders will be

War and the Private Investor

Casablanca carried its construction work across a graveyard, and similar tactless interferences with local usage are not uncommon in the introduction of capital equipment abroad. In countries whose customs are little understood or are held in contempt by the advance guard of industrial civilization incidents which arouse antagonism are bound to occur.

The cultural impact of foreign capital has aroused opposition in countries less oriental than China and Morocco. The feudal-agrarian nobility of Tsarist Russia, possessors of great landed estates, bitterly fought Witte's policy of encouraging the inflow of capital from abroad to build up industries. They saw their dominance threatened by the rise of a new industrial bourgeoisie, and their antagonism took the form of violent denunciations directed in the name of outraged patriotism against the entrance of foreign capital. A group known as the *Narodniki* (Populists), including certain Russian sociologists, likewise opposed the introduction of foreign enterprise on the ground that industrial capitalism, "strange child" from Western Europe, had nothing to justify its artificial planting on Russian soil. They held that city life was demoralizing; they wished to preserve the agrarian, semi-communistic organization of the Russian village. To them the industrial development fostered by capital imports, like the technical importations of Peter the Great, was a "poisonous product of foreign culture."¹

The connection of the foreigner with cultural overturns in capital-importing countries is in a sense fortuitous. China, to return to that example, has been overtaken by the industrial revolution. It so happens that foreigners have been the instruments of that revolution, diffusing with their capital and their enterprise the transformations which their own countries underwent not so long since. The industrial revolution produced evils and antagonisms in Europe and America, where it developed without the conspicuous presence of alien initi-

given to the local authorities to conform in the strictest manner with the clauses of the present convention.

"Article XVII. The Syndicate will do all in its power to keep up the best possible relations with the authorities. Any want of respect to an official, and any unfriendly act of which an employee may be guilty, must be reported by the local official. The Syndicate undertakes to dismiss an official who has been proved guilty, or at least not to allow him to work on the same mine."

(*Ibid.*, Appendix V.)

¹Dr. B. Ischchanian, *Die ausländischen Elemente in der Russischen Volkswirtschaft* (Berlin, 1913), pp. 136-139.

Private Investments and the Causes of War

ative. But in China, "It is the foreigner who builds the railroads, who runs the ships, who sells the machine-made products, and who pays higher prices for the raw materials and the foodstuffs. Everywhere the foreigner is the active and visible agent of the industrial revolution. What more natural than that the Chinese villager in his ignorance should ascribe his desperate condition to the enterprises of these foreigners? . . . What an excellent opportunity for the political agitator, who sees his own advantage in rousing the anger of his people against the foreigner, to denounce the Powers, their treaties, their concessions, and all their works as things of evil, as the bane of China, and to urge the purging of the land from the malign influence."¹ When the industrial revolution is carried across international boundaries by foreign investment into non-industrial societies, the clash of divergent cultures may easily become an international conflict.

A further source of conflict between the inhabitants of a capital-importing country and foreigners who make investments there lies in the opposite attitudes which they are likely to take toward measures of social reform, or, in extreme cases, social revolution. When the inhabitants of a capital-importing country are predominantly of the non-propertied, wage-earning, or tenant farmer class, their first concern as they wake to political consciousness is to use the power of the state for bettering their own position. They are likely to adopt labor codes drawn in the interest of workers, tax systems bearing heavily on property holders, drastic restrictions on the private ownership of natural resources like oil, minerals, or timber, and measures designed to achieve, by taxation or outright expropriation, the break-up of large landed estates and their distribution among the people who actually till the soil. Such a program clashes directly with the vested interests of large property owners. Now, just as in the case of the labor-capital conflict examined above, this conflict of vested interests with social reform—of the privileged with the unprivileged, the haves with the have-nots, of

¹Norton, *op. cit.*, p. 174.

War and the Private Investor

private rights with the general welfare—exists as an internal problem in every country. The only unique element which the fact of foreign investment introduces into the problem is its tendency to create situations in which the desire for social reform or revolution is on one side of a political boundary and the vested interest on the other. Thus the conflict becomes a potential source of friction between national states.

Vivid examples of this type of conflict have already been described in Chapters 5 and 6: the controversy between the United States and Mexico over oil and land laws, similar difficulties over agrarian reform and nationalistic oil laws in Rumania, and antagonism in the capitalistic world against Soviet Russia on account of expropriation of property. As the Russian case illustrates, private foreign investments under some conditions may tend to convert class conflict into conflict between nations, for foreign investments bring it about that the “exploiters”—to use the terminology of the revolutionist—dwell in one country and the “exploited” in another.

Differential rates of social and economic change, or the development of divergent social orders, would produce no conflicts between countries differently affected if there were no contact between them. But foreign investment is a form of contact peculiarly sensitive to such changes. Where foreign investments exist, social reform or social revolution easily sets up conflicts between countries whose norms with respect to property rights have not undergone simultaneous modification or transformation. Since foreign investments do exist and are likely to continue to exist, and since the state of flux in which the social institutions of the world appear to find themselves at the present time makes it likely that reforms and revolutions will continue to occur, but not simultaneously in all countries, the future will doubtless present grave problems of the type we have been discussing. Some of the most serious political issues confronting the world in the next few decades will center about the question, What fundamental rights are to be upheld by the international com-

Private Investments and the Causes of War

munity and enforced in all countries, even against the wishes of the inhabitants? If these are to include property rights of foreign investors, to what degree are such rights to be held inflexible as over against the welfare of non-propertied classes in a borrowing country? Critics of American diplomatic policy in Mexico have accused the United States government of attempting, in the oil and land law controversy, to "export the 14th amendment"—that is, to insist upon observance in Mexico of those doctrines favorable to propertied interests which the United States Supreme Court has built up on the "due process of law" clause of the Constitution. Whose view of the correct balance between vested private interests and general governmental powers, presumably exerted in the public interest, shall prevail? The problem is not simple within the bounds of a united national group under one government. It becomes infinitely more complex when foreign investment propounds it on an international scale.

One further source of conflict between capital-importing and capital-exporting countries deserves examination here. It arises out of the fear shared by most borrowing lands that capital imports may lead to foreign domination, either economic or political or both. This fear, as previous chapters have made plain, is not entirely unjustified. The love of independence and the fear of foreign domination have often given rise to measures designed to prevent politico-economic "penetration" by foreign capital. Not infrequently these measures have themselves become centers of dispute with other nations and have thereby provoked the very interference from abroad which they were designed to forestall.

Although a review of past experience shows rather conclusively that "advanced" countries have had little reason to anticipate political subjugation as a consequence of foreign capital imports, measures based on the fear of such consequences have by no means been confined to the weak, non-industrial nations. The conspicuous participation of outside capital in domestic economic life is bound to arouse the emotions of nationalists where nationalism is strong, giving rise

War and the Private Investor

to vague suspicions and dire forebodings of evil results whose exact nature is never specified. Thus, a book published in France in 1931 under the title "America at the Conquest of Europe,"¹ argues that if Europe cannot raise funds to free industry from the penetration of American interests, then Europe will be permanently "enslaved" to the United States. The use of such words as enslavement in this connection must probably be regarded as an emotional expression of the injury to pride which seems to accompany the import of capital; it apparently depends upon the association of inferiority-superiority with debtor-creditor relationships. Objectively, one can think of respects in which American policy becomes subject to influences from Europe as a result of capital investments in Europe, as well as of ways in which European policy becomes subject to influences from America; the "enslavement" notion is a way of looking at one side only of the relationships of political and economic interdependence set up by capital migration. In fact, in the realm of foreign policy and as between advanced countries there is strong reason for believing that the borrowing nation has more leverage on the policies of the creditor nation than *vice versa*.

Given the existing state of national consciousness, however, it is inevitable that the acquisition of a considerable measure of control over well known enterprises by foreigners should arouse comment and concern. This has been the situation in Germany, particularly, in the last decade. When Opel and A. E. G. (German General Electric) and hundreds of other firms, some of whose names are as familiar to Germans as are the names Ford and General Electric to Americans, came partially or wholly under the influence of American capital, the alarm in certain quarters was acute. There followed widespread discussions of "*Ueberfremdung*," or "alienation of control." It appears that it is not foreign capital itself which is feared, but the control bound up with it.

Germany is not the only advanced country where "Ueber-

¹Ch. Pomaret, *L'Amérique à la conquête de l'Europe* (Paris, 1931).

Private Investments and the Causes of War

fremdung" has been viewed with alarm in recent years,¹ and modern nations have adopted a surprising variety of measures designed to guard against politico-economic penetration by foreign capital, to forestall possible international friction over foreign investment interests, or to prevent alienation of control of certain industries. The means used for the prevention of foreign influence in national enterprises have included (1) general laws or administrative regulations, (2) state intervention in the organization of particular enterprises, (3) outright state participation in particular enterprises, and (4) measures taken by private companies themselves to prevent control from passing to non-nationals. Examples follow.²

Regulations of the first type are exemplified by the Russian decree of 1887 which prohibited ownership of land by foreigners along almost all of the Russian frontiers in Asia and in Poland. The exploitation of mines was forbidden to foreigners in some regions, and aliens were not allowed to hold land in certain cities. Norwegian laws of 1909 and 1913 contained similar provisions. A Prussian law of 1909, designed to prevent French penetration in the coal regions of western Germany, made the acquisition of mining properties by legal persons subject to the approval of the state.

Legislative measures to insure national control of the merchant marine have been widespread. France, for example, has granted subsidies on condition that a majority of the board of directors and the president of the steamship company must be French, and a former Russian law provided that companies established for the purpose of shipping on the Caspian Sea could have only Russian shareholders. A Swedish law of 1910 required that the founders, members of the board of directors, president, and in case of liquida-

¹The Secretary of Agriculture in Czechoslovakia said in 1928 that "thousands of Czechish workers are today in the service of foreign capital. The nationalization of industry must be carried out in order that the rise and decline of business shall not be merely a source of profit to foreigners." (Quoted in Frank A. Southard, Jr., *American Industry in Europe* [Boston and New York, 1931], p. 185.)

Extreme financial protectionism designed to maintain high rates of interest and profit for the benefit of domestic capitalists, such as lay behind the Rumanian oil law of 1924, is relatively rare, however.

²Mainly based on a study published in 1918, Raphael Polak, *W'ering van Vreemden Invloed uit Nationale Ondernemingen* (Amsterdam, 1918). There is no doubt that the rampant nationalism of recent years has multiplied such measures considerably.

War and the Private Investor

tion the receivers, of certain corporations must be citizens of Sweden. These regulations, and certain restrictions on foreign capital imports adopted in Czechoslovakia and other countries, are said to have been inspired by fears of complications with larger countries over protection of their citizens' investments. The French corporation law of 1913 provided that a stockholders' meeting might at no time change the nationality of the corporation. Indirect means of guarding against transfer of nationality are established in some countries by the requirement that all companies must be registered and that the nationality of founders and directors must be given.

States have frequently made special provisions for maintaining the national character of particular enterprises. Thus, most countries make some requirement regarding the nationality of directors and stockholders of note-issuing banks, and it is often required that directors and officials of national railway companies be citizens. Sometimes contracts and concessions are granted on condition that the national character of an enterprise be preserved; examples may be found among the chartered companies discussed in an earlier chapter. Particularly in such strategic enterprises as telegraphic cable operations have governments insisted upon national control as a condition of financial and other support.¹ Examples of outright state participation in private enterprises, thereby insuring the absence of foreign influence, are relatively rare, but some, such as the Anglo-Persian Oil Company, have been previously cited.²

Since the war the progressive increase of foreign control or strong minority influence in European corporations, especially by American industries joining in the widespread movement to acquire branches and affiliates in Europe, has led a surprising number of French, German, English, and other European corporations to adopt safeguards of their own against non-national control. The *Frankfurter Zeitung*³ estimated in 1929 that fifty per cent of all German corporations had taken such action, largely by the issue of plural voting shares vested in the boards of directors. The French Thomson-Houston Company, in justifying the issuance of multiple

¹H. Thomas, "Les cables sous-marin," *Revue Economique Internationale*, 1906, II, 298 ff. Indeed, England has required that its companies have no foreign employees in any of their stations, accept the control of no other government, and run their lines through no foreign office. The example of England has been followed by other countries. The obligation to employ only nationals was imposed by the United States on the Commercial Pacific Cable Company.

²See Chapter 10.

³*Abendblatt*, September 11, 1929. Cited in Southard, *op. cit.*, p. 181, on which the material in the text is based.

Private Investments and the Causes of War

voting shares, explained that it was merely following the example of five hundred other French corporations.¹ In England a large number of companies have adopted protective devices, among them Marconi-International Marine, Ltd., Marconi Wireless Telegraph Company, Ltd., Rolls Royce, Ltd., Imperial Airways, Rubber Plantations Investment Trust, Burma Corporation, Gaumont British Pictures Corporation, and three of the British-owned South American railways.² In other countries such well-known enterprises as Fiat and Snia Viscosa in Italy, Swiss Motor Columbus and Aluminium Industrie, A. G. Neuhausen in Switzerland, Dutch Enka, and the Swedish Match Trust have taken similar action.

The three corporate devices which a recent investigator found in most common use among European companies to prevent alienation of control are: (1) the issue of plural voting shares, to be held by the board of directors or (less commonly) by stockholders of a given nationality; (2) the limitation of foreign stockholding to a minority percentage of the total outstanding stock; (3) the disfranchisement of foreign stockholders. The same investigator declares, however, that "so far as can be ascertained, these devices have not in the slightest hindered American (or other) corporations in their effort to purchase foreign interests."³ All of them can be circumvented, and some of them, such as plural voting shares, have on occasion actually made it easier for foreign interests to gain control.⁴

In the industrially less advanced and politically weaker countries there are usually no native enterprises which foreigners care to take over. They prefer to set up their own modern organization and equipment. Therefore, the issue of alienation of control does not arise. Lands of this type in their protective measures against foreign capital are concerned with preventing the political consequences which

¹*L'Information*, October 26, 1929.

²Cases selected by Mr. Southard from files of the *Economist*, *Manchester Guardian Commercial*, and English daily newspapers.

³Southard, *op. cit.*, p. 180.

⁴That devices of this type are not altogether new developments of the last decade is shown by the large variety of such methods enumerated in the 1918 study drawn upon above.

An official publication bearing on the topic is Iver C. Olsen, *Rights of Foreign Shareholders of European Corporations*, United States Bureau of Foreign and Domestic Commerce, Trade Information Bulletin No. 659, October, 1929.

War and the Private Investor

they have seen come to other countries in the wake of alien enterprise: diplomatic pressure from powerful foreign states, interference with internal political affairs, armed intervention, loss of territory and sovereignty.

Some countries have tried to hold off all foreign enterprise, or to resist the establishment of economic interests by the nationals of particular states whose political dominance is feared. Policies of this sort have been uniformly unsuccessful against the drive of modern business and modern governments for expansion. China and Japan were forced to abandon their anti-foreign policies. The Bey of Tunis could not resist the pressure of the French for concessions, nor could the Shah of Persia resist the Russians and the English. The obstructionist tactics of the Turks against Italian penetration in Tripoli merely provided the desired pretext for military conquest.

Other countries, recognizing the futility of attempting to resist the world-wide sweep of capitalist development, have tried to safeguard themselves against untoward political consequences by caution in granting concessions, by limitations on certain types of foreign ownership, by regulations and restrictions. An American financier relates in his memoirs that a project for the consolidation of Chilean nitrate interests under the leadership of financial houses in the United States was under discussion, with the government of Chile showing every evidence of its willingness to coöperate, when like a thunderbolt came the ultimatum on the Alsop claims issued to the Chilean Republic by Secretary Knox. In the face of this assertion of American political might, Chile was afraid to have her principal industry and source of income controlled by a corporation organized by the financial and industrial magnates of the United States. And that was the end of the proposed consolidation.¹ Many states restrict alien land ownership, especially along their frontiers. Others limit the percentage of foreign stock ownership in corporations exploiting certain natural resources. Japan has prohibited

¹Charles R. Flint, *Memories of an Active Life* (New York, 1923), pp. 69-72.

Private Investments and the Causes of War

ownership of land and mining properties by foreign individuals or companies, though the law permitted foreign participation in companies formed under Japanese law, and long leases might be taken on surface property.¹ China has attempted to set up the requirement that foreigners may not hold more than half the total number of shares in mining concerns, and Mexico in 1879 provided that citizens of neighboring states might not acquire public lands in the Mexican border states adjacent to them. Numerous instances of the same character could easily be collected. In a secret appendix to the Bagdad Railway concession of 1902-3, the company agreed not to establish or encourage foreign settlements in the vicinity of the railroad.² The nationalist government of Turkey since the war has surrounded the concessions of foreign firms with innumerable safeguards, arising out of a fear of the political consequences of capital importation which, according to some observers, has become an obsession.³

A third type of procedure adopted by the governments of weaker and less developed nations in their struggles to avoid political domination by stronger powers has been the encouragement of "non-imperialist" or "neutral" capital. That is, endeavors are made to attract capital from countries which are thought to have no political ambitions in the capital-importing region.

When Walter von Siemens visited Persia in 1867 in the hope of obtaining contracts for electrical equipment, he found the Persian government hesitating for political reasons to grant the permission desired by the British government for an Indo-European telegraph line across the country. The Persians even inquired through the Russian legation whether it might not be possible for the German firm to undertake the project. "The Persians are much less difficult

¹Herbert Feis, *Europe the World's Banker: 1870-1914* (New Haven, 1930), p. 428; *Foreign Relations of the United States*, 1911, p. 236.

²E. M. Earle, *Turkey, the Great Powers and the Bagdad Railway* (New York, 1924), p. 84.

³Gustav Herlt, "Zusammenschumpfungen der weltwirtschaftlichen Beziehungen der Türkei," *Zeitschrift für Volkswirtschaft und Sozialpolitik*, V (N. F.), 1927, pp. 137-8.

War and the Private Investor

to deal with when it is a question of concessions to private persons," wrote von Siemens, "and as Prussians we are doubly free from suspicion."¹ As the financial and political grip of Russia and England tightened on Persia, the government made a desperate attempt to escape from the clutches of these powers by bringing in a financial adviser to help put its house in order. Mr. Morgan W. Shuster, from far-away, neutral America, was the adviser selected. His efforts were successfully thwarted by the two interested powers, but again after the World War Persia turned to America in the hope of attracting disinterested assistance. Since the United States had no political interests in that particular region "the Persians no doubt felt that the presence of Americans and American capital in Persia would contribute to the creation of conditions under which the open door would become an actuality and the danger of spheres of influence or partition of the country would be definitely past. The 'American policy' of the Persian government appeared to be based, therefore, on a strong desire to insure in a practical way the independence and integrity of Persia through economic and financial coöperation with a nation whose interests in the country would be likely to coincide with those of the Persian people."² The government of Abyssinia recently endeavored to interest American capital and enterprise in important construction work in that country (the Tana Lake dam) as part of its campaign to escape from the sphere of influence policy pursued by France, Italy, and Great Britain.³ Officials of the Ottoman Government have almost without exception looked upon the prospect of American capital investment in Turkey with greater favor than upon investments by citizens of other powers, because American enterprise was held to be free from political ambition and desire for territorial aggrandizement.⁴

Another phase of the efforts of weak, capital-importing countries to forestall the unwanted political effects of foreign investments is represented by their efforts to establish certain doctrines of international law. Few such countries have not attempted to guard themselves against diplomatic intervention by some form of the Calvo clause, either in contracts

¹Karl Helfferich, *Georg von Siemens* (Berlin, 2d edn., 1923), I, 89.

²A. C. Millsbaugh, *The American Task in Persia* (New York and London, 1925), pp. 18-19.

³See Chapter 13.

⁴Leland James Gordon, *American Relations with Turkey, 1830-1930, An Economic Interpretation* (Philadelphia, 1932), pp. 282, 286.

Private Investments and the Causes of War

and concessions or in constitutional or statutory provisions regarding the ownership of property by foreigners. The Calvo clause, designed to bind the foreign investor not to appeal to his government for diplomatic protection, has been vigorously championed by the small, capital-importing states and as vigorously rejected and held to be of no effect by the major capital-exporting powers. This particular device for avoiding the political consequences of capital importation has itself provoked diplomatic disputes of some sharpness—for example, between the United States and Mexico.

Finally, far-sighted statesmen in some of the less developed countries have decided that the inflow of industrialism, represented by foreign capital and technical methods, cannot be resisted, and that their best hope for retaining political independence lies in accepting the inevitable and adjusting to it. They have therefore endeavored to guide and control the movement themselves, directing it into channels deemed most beneficial, or least menacing, to the welfare of the capital-receiving land, and training their own people to take charge. The Persian government, for example, as a modest provision against the permanent exploitation of Persia by foreign interests, has sent young men to study in European engineering schools, while foreign technical advisers have been employed to establish various industrial enterprises destined eventually to become thoroughly Persian. Provincial normal schools have been established, with special facilities for the study of physics and chemistry.¹ The Japanese, of course, used this method very successfully in achieving the phenomenal transformation of Japan from a “backward” country to a modern industrial and political power of the first rank. Soviet Russia is following a somewhat similar course, in that foreign capital and foreign technical advice are hired freely, but foreign entrepreneurship is excluded or admitted only in special cases under strict supervision. Latin-American countries have been urged by some to imitate this example in order to emancipate themselves from foreign

¹Foreign Policy Association, *Information Service*, V (May, 1929), No. 4, p. 78.

War and the Private Investor

economic domination.¹ The nationalist governments of Turkey and of China have put among their cardinal objectives the education of their people to a point where they can exploit their own resources as capably as can foreigners.

SUMMARY

We have explored in this chapter the underlying conflicts which may, in certain circumstances, take the form of political friction between capital-importing and capital-exporting nations. These are, to recapitulate, the debtor-creditor conflict, the labor-capital conflict, the conflicts centering about the expropriation of native lands and the tenant-landlord relationship, the conflict of divergent cultures—particularly, the clash of industrial civilization with older forms of social organization—and the conflict between social reform and vested property interests. Finally, there exists a conflict between the desires of capital-receiving nations for economic and political independence and the tendency of capital to bring in its wake consequences which, even if they do not lead to political conquest, may be felt as foreign domination. This inspires certain defensive measures on the part of capital-importing nations, and these defensive measures in themselves sometimes provoke international difficulties.

¹See, for example, Arturo Orzábal Quintana, "Los Soviets y el petroleo del Caucaso," *Nosotros*, 22 (November, 1928), 162-187, in which it is urged that Russia, through the revolution, has freed itself from foreign economic domination and has learned how to manage its own resources. In this achievement there is a lesson for Argentina.

CHAPTER 15

Potential Conflicts Between Capital-Exporting Countries¹

THE analysis in the last chapter of the sources of investment difficulties between capital-importing and capital-exporting countries ran in terms of a multiplicity of clear-cut economic and cultural conflicts, any one of which might give rise, under the proper circumstances, to political friction. If the analysis of this present chapter is to be realistic it will have to be much less clear-cut, for only to a minor extent does investment friction between capital-exporting nations—which is to say, with slight inaccuracy, between great powers—arise directly out of investments or investment interests themselves. Rather, many complex factors of the sort commonly called political, historical, psychological, combine with other factors of the economic variety (among which investment interests may or may not play a rôle) to produce an opposition of interest or attitude between capital-exporting countries, and in this opposition of interest or attitude the private investments of citizens then become entangled.

Our job, therefore, is to analyze two sources of investment friction between capital-exporting countries: first, the creation of investment friction by the clash of immediate invest-

¹Of course, in order to be symmetrical a discussion which treats first the conflicts between capital-importing and capital-exporting countries and then the conflicts between capital-exporting countries would have to follow with an examination of conflicts between capital-importing countries. Conflicts of economic interest certainly exist between capital-importing countries, but so far as I know they have never taken on any political importance.

War and the Private Investor

ment interests, including the immediate pressure of investors on the policies of capital-exporting states; second, the entanglement of investments in conflicts not immediately occasioned by them, but resulting from a complex in which investments may or may not be one among many contributing factors. The complex of factors which has most frequently brought private international investments into political friction we shall subsume under the term "expansionism."¹ It will therefore become imperative at some later stage in the analysis to examine the rôle of private investments in the origin of expansionism. This outlines the course of the present chapter.

There are two direct economic conflicts between rival lending groups which, like the conflicts examined in the last chapter, manifest themselves as domestic problems within the boundaries of national states and assume an international aspect when capital crosses frontiers. These are, first, the conflict of competing suppliers of capital for the most attractive investment opportunities, and, second, the conflict between joint creditors of the same debtor or debtor group as to precedence of claims, especially if the debtor's ability to repay in full becomes doubtful. A few years ago it could have been said that conflicts of this second sort seem never to have assumed any great importance in modern international politics, at least with respect to private investments, but one effect of the world depression has been to raise precisely such issues. It is the widespread resort to governmental control of foreign exchange, usually as a measure of monetary policy in the first instance, which has laid the basis for political supervision of outgoing private payments and thereby raised the question of discrimination in this regard. This has been noted in connection with the German private debts (Chapter 2). A long duration of depressed economic and financial conditions which make both domestic and foreign debt payments

¹This includes attitudes and policies which look to the extension of a nation's political sway over additional territory through colonial conquest, protectorates, spheres of influence, and the like. The term "imperialism" is avoided because it means too many different things to different people.

Private Investments and the Causes of War

problematical, or continued developments in the direction of national control over economic life, would almost certainly have the effect of elevating this clash of interest between creditor groups into a first-rate problem of international politics.

The spotlight of attention in the past has rightly been concentrated, however, upon the international political effects of competition for investment opportunities. There is no doubt that the direct clash of economic interest between lending groups of different nationalities seeking to make placements abroad has been a factor in the origin of investment frictions between capital-exporting countries. But the reader should be warned against assuming that this direct clash of interest is in any sense a complete or adequate explanation of such investment frictions. In the first place, it fails to explain why the conflicts manifest themselves in the form of political friction between competing lenders of *different* national citizenship and not between competing lenders of *the same* national citizenship. A corrective to which those who discuss the "economic" causes of international friction can hardly resort too often is to remind themselves that the economic conflicts discovered in connection with these frictions often exist within single countries without giving rise to comparable results. In the present instance, competition for desirable investment opportunities in, let us say, the Far East, has existed between different British firms and different German firms in just as valid an economic sense as it has existed between British and German firms. An explanation of international investment friction must add non-economic elements to these purely economic conflicts of interest; it must give due weight to the psychology of nationalism and to the system of organization, or the lack of it, of relations between national political units.¹

¹This is even more true when dealing with the clashes between capital-exporting powers than when the relations of capital-importing to capital-exporting countries are under discussion. When Country A imports capital from Country B the creditor interests are concentrated in B and the debtor interests in A in such a manner as to make it easy to identify the interests of each country with the interests of the credi-

War and the Private Investor

In the second place, the direct clash of interest between lending groups in search of investment opportunities is not a complete or adequate explanation of investment friction between capital-exporting countries because it fails to accord with the inductive evidence (developed in Chapter 13) that in cases of serious investment friction between great powers the private investments have characteristically been involved as tools of diplomacy, rather than as determiners of diplomacy. This inductive evidence does not prove that the economic conflict of interest between lenders, of which we have been speaking, has no causal connection with the investment frictions in question, but it does seem to establish rather definitely that the connection has not ordinarily been direct, proximate, immediate. The stream of causal influence which flows from lenders' conflicts of interest to international political friction over investment opportunities follows a devious channel, and is usually joined in its course by other streams of influence which modify or absorb it. Some of these other streams are: strategic considerations of national power in the broadest sense and of national defense in the narrower sense; economic beliefs and doctrines accepted by statesmen, whether sound or unsound; messianic visions in the cultural field, with accompanying drives to convert the heathen, spread civilization, or assume the white man's burden; competitive national efforts to find markets for industrial products; emotional drives for national prestige. All these factors and more may enter into international frictions between great capital-exporting powers; so that even when the friction centers about concessions, colonies, or other issues related to investment opportunities, the element of actual direct economic conflict may be very dilute.

tor and debtor groups, respectively. When investment opportunities in Country A are being competed for by citizens of Country B and by citizens of Country C, however, it is not quite so plain why the "economic" conflict should be considered to exist between B and C more intensively than between competing citizens of B or competing citizens of C. That it is so considered is an important fact of a social-psychological, political—at any rate non-economic—character, which must be added to the purely economic conflicts in order to explain why they take the political forms they do.

Private Investments and the Causes of War

All this may seem over-subtle and academic, but it makes a great practical difference for purposes of control whether one believes that the immediate impulse to dangerous frictions between capital-exporting powers comes from lending groups who find themselves in competition for desirable investment opportunities, or whether one believes that the immediate impulse is more likely to come from complexly motivated political ideas like the urge for national expansion, which ultimately may depend in part (but indirectly and only in part) upon investment interests, while immediately they use investments as a tool. The second view is much closer to the facts than the first, and conscious or unconscious acceptance of the first as a working hypothesis has made the suggestions of various reform groups much less useful than they might otherwise have been. The stakes which turn on the issue of international peace or war are so tremendous, and the margin by which it may be possible, if at all, for the world to avert catastrophe is so slim, that it would be tragic for people who wish to exert themselves in the cause of peace to waste their energy, as one of them put it, "barking up the wrong tree."

A crude or naïve form of the economic interpretation of history¹ sometimes used to explain investment friction between capital-exporting powers, posits some such pattern as the following in the origin of these disputes: Bankers, business men, speculators, scour the earth looking for profitable opportunities to invest what is often called "surplus capital."² They seek railway concessions in China, establish

¹In order to forestall needless attack by exponents of the economic interpretation of history it should be made clear that the discussion does not concern the validity of that approach as such, but certain crude forms of the doctrine which, though widely held, would certainly be rejected by its more careful interpreters.

²This concept of "surplus capital" needs critical analysis. As with all notions of a surplus in economics one must inquire "Surplus at what price?" Pursuit of this question leads in the present instance to the discovery that the situation usually described by the phrase "surplus capital" does not involve a surplus in the absolute sense that the exported capital could not be used at home, assuming the rate of return was made low enough. A more precise description of the circumstances would be that, after due allowance for the expected risks, a greater return is looked for abroad than at home. Response to this differential in the expected rate of return is a

War and the Private Investor

banks in Persia, acquire mining rights in Morocco. In all these undertakings they seek, and secure, the support of their national governments. Rival investors of different nationalities are attracted by these supposedly lucrative opportunities, and they enter into competition, each persuading his government to back him diplomatically in his quest for profits. Soon the governments find themselves involved in controversies over the investment opportunities sought by their respective capitalists, or over the protection of capital investments once made. Pushed on by the influence of profit-seeking investors, who continue to demand vigorous support of their financial enterprises, the governments come to sharp political clashes, which may prepare the way for war.¹

more accurate description of the forces which cause capital migration than such phrases as "surplus capital," implying as they do a sort of squeezing out of redundant capital for which there is no use regardless of price. The differential in the expected rate of return arises not only out of conditions affecting the supply of capital in the exporting country, but also out of demand factors there and abroad, including developments in communication and transportation which make it possible to manage investments abroad more efficiently and to market their products more cheaply. As the steamship, the refrigerator car, and the refrigerator ship came into use, for example, it became possible to market bananas profitably all over the world, and the probable rate of return on investments in banana plantations in Central America took a sudden jump. Capital invested there promised to yield more than capital invested at home. This promise of a higher return, not redundant "surplus capital," led around 1900 to the beginnings of large investments by United States citizens in Central American banana culture.

"Men have sought a specially profitable source of investment. They have been able to utilize their government to protect their interest; and, in the last analysis, the government becomes so identified with the investor, that an attack on his profit is equated with a threat to the national honour. In those circumstances the armed forces of the state are, in fact, the weapon he employs to guarantee his privilege." So writes Harold J. Laski in a chapter on "The Economic Foundations of Peace" contributed to a symposium on *The Intelligent Man's Way to Prevent War* (ed., Leonard Woolf, London, 1933), p. 508.

This theory of "Economic Imperialism at Work" is advanced in support of the contention that "while the roots of war cannot be traced to any single habit, its main causes lie in the economic field. Its chief object is a search for a wealth obtainable by its means that is deemed greater by those who push the state to its making than will be obtainable if peace is preserved" (p. 501). The specific cases cited as examples in connection with the first quotation are nearly all given a questionable interpretation: "No one now denies that the British occupation of Egypt was undertaken in order to secure the investments of British bondholders; and that the South African War was simply a sordid struggle for the domination of its gold mines. The French invasion of Mexico under Napoleon III was an effort to protect the interest of French investors in that ill-fated state. Nicaragua, Haiti, San Domingo, to take

Private Investments and the Causes of War

Now, there is nothing logically wrong with this theory. It is perfectly plausible. And events very close to the description it provides have occurred in the actual world. But the facts of investment friction between capital-exporting nations have usually been a good deal more complicated than this theory implies, and especially is this true of those difficulties that have been really serious threats to international peace. The vice of this crude theory is its dangerous over-simplification—dangerous because the half-truths it presents in easy tabloid form divert attention from some vital factors in investment friction and lead to false conclusions regarding the policies of control that might promise most success in minimizing such friction.

The theory rests on half-truths in three important respects. In the first place, it is true that investors do put pressure on governors to influence state policy in ways favorable to the formers' profit interests. The objectives and the methods of such pressure have been analyzed in Chapters 6 and 8. But it is definitely untrue that many cases can be found where immediate pressure of this kind has pushed governments so far as to provoke really serious clashes with other strong powers. An explanation for that fact has been offered in Chapter 13. In the second place, it is true that the ends sought by governmental policies which lead to clashes with other governments often do include expansion of opportunities for the profitable investment of capital. It is not true, however, that the impulse to such purposes on the part of the governors comes necessarily, or even usually, from the pressure of persons with direct economic interest in investment outlets. As a matter of fact, it is a striking circumstance that govern-

only the most notable cases, have all been reduced to the position of American provinces in the interest of American capitalists. The Russo-Japanese War was, in the last analysis, the outcome of an endeavour by a corrupt government to defend the immense timber concessions in Manchuria of a little band of dubious courtiers. The savage cruelties of the Congo; the struggle between British and American financiers for the control of Mexican oil, the fight between Germany and the Entente for the domination of pre-war Turkey; the reduction of Tunis to the position of a French dependency; the Japanese strangulation of Korean nationalism, all these are merely variations upon an identical theme."

War and the Private Investor

ments, journalists, colonial zealots, and patriotic societies have often been more avid than the owners of capital in the promotion of investments abroad. Third, and finally, while it is true that the immediate economic interests of rival investing groups come into conflict over desirable investment opportunities, the crude theory fails to give adequate weight to the fact that such conflicts are ordinarily subject to solution with reasonable ease on the basis of the business techniques of compromise, buying and selling, *so long as purely profit-making considerations are involved*. If simply the direct pressure of profit-seeking business were behind the investment frictions between capital-exporting powers these would be much less dangerous. Business interests can be compromised much more readily than can strivings for national power, prestige, and glory.¹ The process by which the latter come to be bound up with the former is not adequately explained in the over-simplified theory we have been discussing.

Some of the important elements in the development of investment friction between capital-exporting countries are indicated in the diagram on page 423, which is offered as a closer approximation to the actual facts than the doctrine just criticized. It will be noted that private investments may enter the process described by this diagram at any one or all of four points: (1) Investors and investment interests may have a part in originating some of the complex of ideas, interests, attitudes, and doctrines here labelled "expansionism." This may be quite unconscious and unintentional, as by simply establishing contacts with previously unknown regions. On the other hand, investors or would-be investors

¹The international struggle over the Bagdad Railway offers a number of instances where the business men and financiers were eager to clear difficulties out of the way and go ahead on the railway under a compromise arrangement but were restrained by the political objections of their governments. Similarly, in the Mannesmann difficulties over mining rights in Morocco, it is doubtful whether the Mannesmanns would have taken the stiff-necked attitude they did without being imbued with some of the chauvinistic spirit of the Pan-German League and without its support, while on the other side the political interests of the French government set definite limitations to the means of compromise that the business men were free to consider.

NATION A

Many intertwined factors in the origin of national attitudes and policies, including:

"Expansionism"—a complex of ideas, interests, attitudes, and doctrines, including:

Desire for national power, prestige, glory.

Desire for markets, fear of exclusion by tariffs of other nations.

Belief in "civilizing mission," "manifest destiny," "white man's burden."

Economic doctrines, whether sound or unsound. (Need for population outlet, need for raw materials, need for investment opportunities, etc.)

Considerations of military, naval strategy and of political balance of power.

Special factors in particular cases.

NATION B


Various means of execution of policy, from friendly diplomacy to armed force, including:

Investments
as tool of foreign policy

C L A S H

Similar set of influences in nation B.

"Balance wheel" effect.

Attitudes of
people and of
officialdom, →  Governors
and state
policy

In some cases;
Direct pressure of im-
mediate interests

Investment interests and
investors

War and the Private Investor

may set out deliberately to encourage the development of an expansionist movement, by propaganda and other means. (2) The doctrine that the nation needs investment opportunities abroad for its "surplus capital" may be advanced as part of the expansionism complex. This doctrine may actually come from those who wish to invest capital, but probably more often it is a rationalization used by navy leagues, colonial societies, or foreign ministers in justification of their policies. (3) Investment interests and investors may exert direct pressure on the governors. This is the type of relationship between private investment and international friction emphasized by the over-simplified theory criticized above. While inadequate by itself, it is by no means to be neglected. It takes a subordinate position in this diagram because it never seems to be effective in bringing a really serious political clash between major capital-exporting powers except when acting in conjunction with some part of the expansionist complex. The expansionist complex, on the other hand, has often been effective in producing investment friction without the aid of direct pressure from immediate investment interests. (4) Investments may be used by the governors as a tool of foreign policy. Investments may likewise be used by colonial societies and similar organizations, or even by energetic individuals, as a means of fostering expansionist projects which the governors have not yet been persuaded to take over officially. In some cases this may be done with the connivance of the responsible governmental officials, in others as a means of forcing them into a desired policy. (Lines showing these last relationships do not appear on the diagram; they would make it too complicated.) The line running from "Investments as tool of foreign policy" to "Investment interests and investors," where it joins the direct pressure on the governors and state policy, indicates that once private investments have been brought into a given situation as tools of foreign policy they acquire interests of their own and henceforth are likely to exert direct pressure on the government's decisions. This has been described earlier

Private Investments and the Causes of War

as the "balance-wheel" effect of private investments used as instruments of diplomacy.

If the reader desires a typical pattern of events for cases in which investment friction has arisen between capital-exporting countries, the following might be offered as more realistic than the over-simplified one criticized earlier in this chapter: Explorers, traders, travelers, and missionaries establish contact with an undeveloped region. They spread reports, often extravagant, of its wealth and potentialities. Colonial and geographic societies may even be formed, and if so their membership will consist not only of business men with interests in foreign trade or investment, but their most active elements are likely to be ardent young journalists, military and naval men, members of the aristocracy, romantic geographers, explorers, government officials, "national" economists, and nationalistic patriots in general. The government comes to be inspired by certain economic and political ideas which call for extension of the national sovereignty, or at least the national influence, over foreign territories. In the meantime, a few citizens have established more or less important economic interests, mainly of a trading nature, in the undeveloped country and have perhaps applied for concessions. Their home government now gives these citizens energetic support, urges others in, perhaps subsidizes some firms. It takes every opportunity to assert the national interest, economic and political, in the territory now vaguely marked out for national expansion. It makes diplomatic bargains with other powers looking toward ultimate control of the territory. Bankers who hesitate to risk funds in the region are urged to do so on patriotic grounds. Concessions representing investment opportunities are extracted from the native government of the territory now being consciously "penetrated"—in many cases before any capitalists can be found who are willing to accept the "opportunities" so assiduously sought out by the diplomats. Meantime, some other great power has started to pursue similar ambitions in the same region, or has become alarmed lest the territory be

War and the Private Investor

seized by the first power and then closed to its traders and investors, or feels that the political balance of power is being disturbed, or that the acquisition of political influence in this region by the first power is a threat to "vital interests" of its own, such as lines of communication to existing colonies, strategic naval plans, and the like. This second power endeavors to oppose the process of penetration by political and economic means, often including the urging in of its own capitalists and demands for concessions to them. Thus political friction over investments and investment opportunities in the undeveloped country arises, and its intensity will depend largely upon the "vital" national interests thought to be at stake. A good many outside observers, whose attention is now drawn to the matter for the first time and who see the two powers quarreling over concessions, railways, and economic advantages, will at this point draw the obvious, but erroneous, conclusion that the main conflict is between the immediate economic interests of rival investing groups.

It is under circumstances approximately represented by this pattern that most of the dangerous crises between great powers over concessions and foreign investments have come into being. Some such chain of events led up to the clashes of the powers in Tunis, Morocco, Abyssinia, Persia, Korea, Manchuria, and various parts of tropical Africa. This is not the only pattern which has been followed in the origin of investment friction, however, and certainly not the only one which may be expected in the future. Inspection of the diagram presented above shows clearly that there are many possible combinations of the elements which seem to be common in investment friction cases, and they may enter in various sequences. A pattern which has been important in a number of cases is represented by the international friction over the Bagdad Railway. In this case the interests of the German promoters definitely preceded the political interest of their government and provided the occasion for its development. Once the government had turned its attention to the railway project and German publicists had begun to

Private Investments and the Causes of War

weave a nationalistic myth about it, however, the enterprise became much more of a political stake than was pleasing to the promoters themselves. German writers and writers in other countries, chauvinists of various lands—many of them quite unconnected with anyone having a direct economic interest in the Near East—read all sorts of political implications into it. Foreign governments opposed it, mainly for reasons connected with the balance of power, alliance politics, protection of “the road to India,” though specific economic interests like those of the Lynch Brothers also stiffened the opposition. The result was the spectacle of German, French, and English financiers wanting to pool their resources under some sort of a working compromise which would remove political opposition, but prevented from doing so through many years by the pressure of nationalistic sentiments in their various countries and by the political preoccupations of their foreign offices.

In order to put the immediate, economic conflicts of rival investing groups into proper perspective among the causes of the investment frictions which arise between capital-exporting powers, this chapter has dwelt at length upon the generalized description of the processes by which such friction originates. The complex of ideas, interests, attitudes, and doctrines here called “expansionism” has received much emphasis in this connection. In fact, the tendency of the argument—representing conclusions which seem unavoidable in view of the concrete evidence—has been to substitute expansionism for the pressure of immediate private investment interests as the villain of the drama, insofar as investment frictions between capital-exporting countries are concerned. But this is in one sense simply to push the question as to the rôle of private foreign investments one step further back, for expansionism has been pictured as the resultant of many social forces, among them some connected with private investment interests or the activities of private investors. To what extent has the pressure of capital for profitable opportunities abroad, or the influence of actual and

War and the Private Investor

would-be investors, been responsible for expansionism and thus indirectly for investment friction?

If we were to engage in a thorough investigation to ascertain inductively, on the basis of specific, historical materials rather than by the untested application of any dogma or doctrine, what factors have contributed to the development of expansionism in each of the great powers and what has been the rôle of private capital among these factors, it would require at least one volume in itself to present the relevant evidence and to analyze it critically. Even then, for most countries, the evidence would not be conclusive; that is, it would be of a sort that competent and objectively minded persons could still interpret differently in important aspects. This inheres in the nature of the question under discussion. Perhaps the causation of complicated social phenomena like expansionism can never be determined with certainty. Be that as it may, despite these reservations there are two conclusions which seem to emerge with sufficient distinctness so that they deserve mention here. First, the investment pressure in which we are interested cannot be regarded as an indispensable element in the causation of expansionism, for certain modern nations where such pressure has been absent or minimal have nevertheless developed most vigorous outward drives of a sort which we must accept as falling within our definition, since they have involved the use of investments as tools and have led to investment friction with other powers. Second, investment pressure has been a factor in the origin of expansionism in certain other countries, to a degree impossible to evaluate accurately, but differing from country to country and apparently quite important in some. In all such cases it has been intertwined with other factors of the most diverse kinds. A brief amplification of these two conclusions will bring to a close this chapter on investment conflicts between capital-exporting countries.

The pre-war histories of Russia and Italy lend no support whatever to the hypothesis that the pressure of "surplus capital" for investment abroad is an essential element in the

Private Investments and the Causes of War

origin of modern national expansionism. Tsarist Russia was capital-poor, a heavy borrower when possible, and yet it sprawled over Northern Asia, contested Korea and Manchuria with Japan, sought to extend its sway southward to Constantinople, and engaged in such an aggressive politico-economic penetration of Persia that England was alarmed for the safety of India. These were typical activities of the sort which has been called "capitalistic imperialism." Investments which were private in form, but really heavily subsidized by the Tsarist government, served as tools of penetration; they included banks, railroads, road construction, forestry companies, shipping and trading companies, and also loans to weaker states. Russia engaged actively in the scramble for concessions in the Far East and in the Middle East. And yet Russia had no "surplus capital" in any reasonable sense of that term; Russia had very little capital at all and borrowed heavily from abroad. Nor were Russian financiers putting pressure upon the government to get them investment opportunities abroad; the government was pressing the financiers, subsidizing them, to create political stakes abroad. Much of the capital used as a Russian diplomatic tool was borrowed in France. Lest it be suggested that Russian expansionism was therefore an expression of the outward push of French "surplus capital" it is well to point out that Russian governments had been engaging in expansionist politics for decades before the first loan was floated in France. The causes of Russian expansionism have to be sought in political ambition, dynastic megalomania, military lust for conquest. Capital was distinctly a tool, not a cause.

The case of Italy is only slightly less clear than that of Tsarist Russia. Italy, too, was a nation poor in capital, borrowing abroad for its own needs. Yet it engaged in the struggle for acquisition of territory and spheres of influence which characterized the decades before the World War. A rising spirit of nationalism seeking to assert itself in the world, the quest for prestige and glory, were more effective causes of Italian conquest in Tripoli, the establishment of

War and the Private Investor

colonies elsewhere on the African coast, the attempt to extend Italian influence over Abyssinia, and the dispute over Tunis with France, than were any investment factors. The capital which served as a tool of penetration in Tunis and Tripoli had to be pushed in and subsidized. The opportunity to participate slightly in the Bagdad Railway enterprise, secured for Italy by its diplomats for political reasons, actually had to be taken up by so-called Italian capital of Greek origin.¹ Italy's aggressive expansionist tendencies before the World War developed without significant pressure from opportunity-seeking capital.

It can surely be concluded from these cases that the existence of "surplus" investment capital pressing for opportunities abroad is not a *necessary* element in the origin of nationalistic imperialism, colonialism, or—in the general term used here—expansionism. On the other hand, the quest for desirable investment opportunities has undoubtedly been a factor of varying magnitude in the development of expansionism on the part of other powers. In France, Jules Ferry and other expansionists believed (or at least said, as an argument for their colonial policy) that investment opportunities were needed abroad. Propaganda of this sort came primarily from statesmen and others who were already zealous colonialists, however, not from the bankers and would-be investors themselves. Doubtless it is part of the duty of a statesman to anticipate the needs of the business community and to make them vocal and effective in national policy even before the business community is conscious of them; in this sense French expansionism received part of its impetus from a desire for investment opportunities abroad. It is worth noting, however, that investments actually made in colonies were a small part of French capital exports before the war. The major factors in French expansionism appear to have been such things as these: the conviction that trade outlets were necessary for

¹The Italian bankers could not be interested, and "it was mainly Greek capital that went in under the Italian flag." Karl Helfferich, *Georg von Siemens* (Berlin, 2d edn., 1923), III, 40-41.

Private Investments and the Causes of War

the industrial development of the country, coupled with the rise of protectionist tendencies in markets all over the world; the impulse to seek prestige, glory, a great place in the world, for the French nation; the desire to recover the injury to national pride inflicted in 1871; the conviction that France had a mission to spread its culture abroad. The desire for investment opportunities was present, at least in the minds of statesmen, but it was hardly among the most effective causes of French expansionism.

The interests of British private investors scattered over most of the world, especially investments connected with trade, undoubtedly contributed mightily to the resurgence of British expansionism in the late nineteenth century. Their mere existence tended to turn business and political interests outward; they provided ready footholds for political operations at almost any point on the earth's surface without the necessity for creating "economic" interests out of whole cloth, as the Russians had to do; they were characteristically accompanied, unlike the investments of the French, by outposts of home enterprises and by personnel from home, which made their political significance quite different. The tendency of private capital to seek out new opportunities abroad was, therefore, an important element in modern British expansionism, along with other important factors, such as the long and still active tradition of colonialism, the naval tradition, the influence of the colonial official class, the quest of careers by younger sons of the aristocracy, missionary enterprise, the search for export markets, and the psychic satisfaction which comes from seeing one's own country cover a larger and larger portion of the world map.

The origin of German expansionism offers the most interesting case of all, for the influences at work came to a focus in shaping the policy of one dominant statesman, Bismarck. In the forces which played upon Bismarck, inducing the famous shift from his earlier maxim that Germany had only continental interests to his later studied attempt to promote German expansion in Africa and the South Seas, one sees re-

War and the Private Investor

flected the social forces which were molding the destiny of the nation. Did the interests and influence of those who wished to place private capital profitably abroad have an important part in this shift? The answer is that they did. The powerful influence of Bismarck's banker friends, von Hanse-mann and Bleichröder, was exerted in favor of a colonial policy, and the practical enterprises of great merchants and shippers like Godeffroy and Woermann furnished the immediate occasions for early demonstration of the new state attitude. As in all the other cases, however, investment interests seeking opportunities and protection represented but one among a number of significant factors in the rise of expansionism. Probably the single most important consideration influencing Bismarck resulted from the rise of protectionism in the latter part of the nineteenth century and its application by other powers to their possessions. The rise of protectionism meant that a nation without colonies would have to fear exclusion from markets for its industries, limitation of trading and investment opportunities, unless it, too, entered the race for possessions and spheres of influence abroad. In the last analysis, however, even in Germany where economic forces were particularly evident in the origin of expansionist tendencies, the colonial movement was most easily justified in the eyes of the people on the basis of patriotic pride and national prestige.¹

The annexation of Hawaii by the United States was due in large part to the activities of American plantation owners—therefore, of private investment interests. Their main economic interest, however, was in obtaining tariff preferences for their products in the United States; so that here, too, the protectionist policy of nations was an important factor. Furthermore, the economic interests of the Hawaiian investors did not suffice in themselves to bring about annexation; after at first refusing to take over the islands, the

¹The development of expansionism in Germany has been particularly ably explored. Consult Mary E. Townsend, *Origins of Modern German Colonisation and Colonialism* (New York, 1921).

Private Investments and the Causes of War

government of the United States finally did so in the nationalistic enthusiasm aroused by the Spanish-American War. The causes of this war, and of the expansionism exhibited in connection with it, have been laid at the door of private investment interests—on the whole, erroneously. Their rôle was slight compared with that of the interests of the “yellow” press and of other internal influences in American life which made for chauvinism. Certainly, investment interests in the Caribbean countries have recently contributed significantly to American political dominance there, though strategic interests connected with naval power, defense of the Panama Canal, and the traditional policy of the Monroe Doctrine were probably more important in turning the political attention of the United States government to the region. The Caribbean seems to offer one of the best illustrations of the “balance-wheel” effect of private investments. Coming in, on the whole, after the political interest, they have tended to make it more intense and permanent. American political interests in the Far East were closely connected with trade from the first, and more recently investments have come to share the importance of trade in conditioning policy. But there has been no important tendency for the United States to adopt an expansionist program there. The conclusion with respect to the United States must be much like those reached for France, England, and Germany: private foreign investments have figured in national expansionism, but as one among many factors, some of which have been more important than the investment influence.

Finally, Japan must be considered. Certainly, in this case, though the forces producing Japanese expansionism may be largely economic in the broad sense of that term, the direct influence of private profit-motivated enterprise seeking either investment opportunities or protection abroad has not been a very significant item in the development of that expansionism. Rather, Japan, like Russia and Italy, has borrowed abroad and pushed subsidized enterprises into coveted territory in order to establish political stakes. Perhaps Japanese

War and the Private Investor

statesmen have been influenced in part by the consideration that some time in the future the country will be in need of profitable outlets for "surplus capital" abroad, but even this must be counted a minor factor in comparison with such forces as the concern over population pressure on the standard of living, the belief that raw materials lacking in Japan must be secured by national expansion abroad, the social and political prestige of the military class, and nationalistic pride such as that which has driven forward the colonial enterprises of other states.

SUMMARY

To recapitulate the conclusions reached in this chapter: There are two direct economic conflicts between rival lending groups. The first is represented by competition for the most attractive investment opportunities, the second by conflict over precedence of claims where there are joint creditors of the same debtor. Conflicts of the second type have hitherto not been very significant politically; their importance may increase if governmental control of all payments abroad continues to be practised in many countries. Conflicts of the first type have contributed to the origin of political friction between nations, but the actual process by which they enter into political situations is a good deal more complicated than has been assumed in certain naïve theories. Many other factors are more important in the immediate causation of international investment friction than the direct economic interests of investors or would-be investors. "Expansionism" is a term which lumps together a variety of such factors. Expansionism itself may be caused, in part, by the economic interests of certain groups in investments or investment opportunities abroad, but it may also arise, and has arisen in several cases, under circumstances which make it clear that private investment interests have had no part in its causation.

B. THE PROBLEM OF ADJUSTMENT

CHAPTER 16

The Failure of Diplomatic Protection

THE last two chapters have made it clear that serious conflicts of interest and clashes of emotional attitude are always likely to be touched off by the international investment of capital. Indeed, it is futile to expect that a process so powerful in its social effects as capital investment can ever occur without giving rise to more or less grave conflicts, even within the bounds of one nation and one culture. Where such conflicts do not call attention to themselves by open and dramatic outbursts (armed rebellions, wars, riots, violent strikes, etc.) the reason is not ordinarily that no conflicts exist, but that social institutions also exist which regularly bring the conflicts to some sort of peaceable and orderly adjustment. This is one of the chief functions of any political system, discharged through such institutions as the law, the courts, and (in a preventive sense) administrative agencies like factory inspection services, land survey offices, and home loan banks. Social institutions that are not governmental in the narrower sense, like collective bargaining, or the prestige acquired by certain classes, help to perform the same function of adjustment. The practical problem, then, of mitigating the international antagonisms bound to be associated with foreign investment is most intelligently stated, not as the task of eliminating all causes of conflict—hopeless in any case, even within the relatively favorable environment of a

War and the Private Investor

single national community—but as the task of developing workable social institutions for the prevention, and, where that proves impossible, the orderly settlement, of these conflicts. This is “The Problem of Adjustment.”

It is the business of this chapter to inquire what social institutions are relied upon today for the adjustment of international conflicts associated with capital investment, and how well adapted these are to their important functions. Though it must be recognized that all such institutions are the product of “historical” forces rather than rational design, a rational appraisal of their operation is, nevertheless, a necessary preliminary to intelligent efforts at improvement.

Excluding from consideration for the time being the new machinery of international organization which has been developing under the aegis of the League of Nations, methods of adjusting international investment conflicts have centered, and still do center, about the institution known as the national diplomatic protection of citizens abroad. Lately this institution has been undergoing modification through the evolution of arbitration and claims commissions and other developments in the field of pacific settlement of controversies between states, but its essence remains the same. The national diplomatic protection of citizens abroad rests upon the legal theory that an injury to a citizen is an injury to his state. A government may therefore make official representations on behalf of its citizen or his property interests within the jurisdiction of another government, either for the purpose of preventing a threatened injury in violation of international law or for obtaining redress once such an injury has been sustained. There is assumed to exist a body of principles and precepts known as international law which is binding upon all states and which entitles aliens everywhere to a certain minimum of security and fair treatment for themselves and their property. When looked at from this latter point of view the technical designation of the legal doctrines involved is “the international responsibility of states for damage done in their territory to the person or property of foreigners,”

Private Investments and the Causes of War

while from the side of the protecting state the same set of doctrines constitutes the basis for "the diplomatic protection of citizens abroad."¹ It is worth pointing out, however, that the two ways of viewing the matter do not necessarily lead to identical results. The international responsibility of states might conceivably be engaged under a different institutional arrangement, not toward the national government of an injured alien, but toward the world community as represented by an international organization. Thus international responsibility (but not to a national state) might still exist, were diplomatic protection abolished.

Let us proceed now to consider what the institution of national diplomatic protection has to recommend it. In the first place, it provides a basis for international intercourse, both personal and economic, by giving the person who goes abroad or sends his property abroad the assurance that at least some attempt will be made to see that he enjoys a certain minimum of security, as that term is understood in his own country. This is indispensable to the existence of international economic relations, and especially so if they are to take the relatively permanent and vulnerable form of capital investment. By undertaking to reduce the risks of international intercourse, national diplomatic protection has contributed, on the economic side, to the attainment of the relatively high living standards of modern times, which are unquestionably dependent to no small extent upon world-wide specialization and exchange. While national diplomatic protection has performed and still performs this function, we have yet to examine whether it does so more effectively and with less disturbance than the same function might otherwise be performed.

In the second place, the institution of national diplomatic protection does provide the means of settlement for many disputes. (We can waive for the moment the question as to whether it causes others.) It provides an accepted ritual,

¹Frederick Sherwood Dunn, *The Protection of Nationals; A Study in the Application of International Law* (Baltimore, 1932), p. 18.

War and the Private Investor

consisting of the preferment of claims, diplomatic interposition, exchange of legal argument, and payment of pecuniary damages, whereby incidents with potentially grave emotional repercussions upon the relations of two nations are sluiced off into the channel of decision according to legal rules and eventually disposed of. As modified by the now well established custom of international arbitration, especially in the form of joint claims commissions, this process not infrequently approximates the Western judicial ideal of impartial application by disinterested judges of impersonal rules of law. Of late some foreign offices have even followed the practice of referring claims of their nationals directly to arbitral commissions without undertaking to pass upon the merits of each claim in advance, and this practice, in so far as it becomes general, will tend to eliminate one of the objections which is later raised against the institution of national diplomatic protection. Even apart from such advanced procedures, however, the great bulk of the cases arising under diplomatic protection—and cases of diplomatic protection constitute a considerable part of the routine of most foreign offices—occasion no particular controversy. Most of them are settled amicably by negotiation. The reader must be warned that a study like this inevitably centers attention upon the relatively small number in which friction has arisen, leaving aside the greater number in which no difficulty appeared.¹ To point

¹We are assured by Mr. F. S. Dunn, who was Assistant Solicitor of the Department of State for a number of years and has recently written two penetrating studies of diplomatic protection, that "the normal case of protection seldom gets beyond the stage of diplomatic negotiation." (*The Protection of Nationals*, cited above, p. 19.) At the end of his volume on *The Diplomatic Protection of Americans in Mexico* (New York, 1933), p. 425, he sounds a warning like that given in the text above. A study centering on controversial issues that have arisen between the United States and Mexico "does not give an entirely fair picture of the operation of the legal process in the field of diplomatic protection as a whole," for it leaves out of account the many complaints which have been settled as legal matters without difficulty, the many cases in which the United States has declined to espouse the complaints of its citizens against Mexico because there has not been a sufficient legal basis for the complaint or for some other reason, and the numerous cases in which the Mexican government has complied with the requests or demands of the United States without objection. "As a matter of fact, a majority of the complaints examined seem to have terminated without controversy."

Private Investments and the Causes of War

out that national diplomatic protection has operated successfully in some cases, or even in the bulk of cases, however, does not constitute an endorsement of its suitability as an institution of social adjustment, especially if it be found that it solves the easy cases and leaves the hard ones, or aggravates them.¹

A third point which can be made in favor of national diplomatic protection is that it does undoubtedly, under certain circumstances, perform a preventive function. That is, certain states, and certain officials, who might otherwise be inclined to proceed with flagrant disregard of the rights and interests of aliens are impelled by fear of the international consequences to exercise caution. Insofar as this is true it tends to reduce the number of occasions for controversy.²

Writers in Latin America, where the prevalence of weak governments and frequent revolutions has brought it about that the Latin-American states are typically in the position of receiving protests from abroad under the head of diplomatic protection rather than initiating them, frequently complain that the institution of national diplomatic protection is a device whereby weak states have their independence revoked by strong ones. It has been observed in answer to this protest that had the practice of diplomatic protection not developed as a legal institution, some Latin-American countries would probably have had to pay much higher penalties than they have paid for the injuries and losses sustained by foreigners within their borders. "While that institution did not always operate in the manner which Latin-American writers approved, it unquestionably served to delay or discourage the resort to forceful action by stronger states when their citizens sustained what was regarded as mistreatment

¹Mr. Dunn continues, after the passage excerpted above, "But with all due allowance for these factors, it still must be admitted that, taken as a whole, the record of the operation of diplomatic protection in the relations between the United States and Mexico has been surprisingly bad. As an institution for the peaceful solution of conflicts of interest, its accomplishments have been meager. Instead of removing or neutralizing occasions for controversy, it often seems to have generated them." (*Ibid.*, p. 427.)

²But see point six below in the case against diplomatic protection.

War and the Private Investor

in the territory of weaker states. The appeal to general rules and principles of law often served to shift attention away from the circumstances of the immediate case, and to give time for passions to cool. In the realm of legal dialectics, the Latin-American statesmen won many more victories than they ever could have won in a trial of physical strength. Furthermore, so long as it was possible to place the discussion of responsibility on the ground of law, the defendant nation could always appeal to arbitration as a last resort. This could not easily be refused by the complainant state, and, if accepted, meant a delay in bringing pressure to bear, and often resulted in a final settlement far easier on the defendant state than the original demand. The legal institution of diplomatic protection, in other words, served as a substitute for territorial conquest in bringing the Latin-American states within the orbit of international trade and intercourse, and, while the results obtained were not what these countries might have desired, the probable alternatives would have been far less desirable from their standpoint."¹ This is a fourth point which may be advanced in favor of national diplomatic protection, but, like the others that have gone before, *it carries weight as between the institution of diplomatic protection and nothing at all, but not as between it and any substitute institution which might show promise of performing the same functions more satisfactorily.*

This is the case that can be made out on rational grounds for national diplomatic protection. It would be a very strong case if there were no alternative ways of discharging the same functions, and in the historical situation out of which national diplomatic protection developed there probably were no alternatives. But there are alternatives today, and they are not open in the same degree to a number of very grave objections that can be levelled against the institution of national diplomatic protection. Those objections are seven in number. The first six arise out of the application and enforcement of the responsibility of states through the agency of

¹Dunn, *The Protection of Nationals*, p. 58.

Private Investments and the Causes of War

an interested national government; they would not apply to the enforcement of these same legal principles through a disinterested agency representing the international community rather than a single complainant state. The seventh relates to defects inherent in any legalistic approach to problems of social adjustment; it would apply just as forcefully to any attempts to meet the problems of capital investment on a purely legal basis through an international agency as through national diplomatic protection.

First, national diplomatic protection is based upon judgment and execution by interested parties. It would seem to be an elementary principle, established by centuries of experience in the operation of human institutions, that those who have an interest in the outcome of a controversy are not fit to judge of its merits. If the adjustment of conflicts is to proceed successfully, whether in local police courts, in enforcing the rules of an athletic contest, or in international arbitrations, it is recognized that partisans must not decide; advocates must not be judges. Yet the institution of diplomatic protection is founded upon the assertion of rights under international law by a national government, acting on behalf of an injured citizen, and the government not only claims the right to judge whether or not international law has been violated, but to proceed to the execution of judgment through diplomatic pressure and reprisals, perhaps ultimately through intervention by armed forces. The defendant state, likewise, not only advocates its side of the case but claims that it, too, in the exercise of its sovereignty must be the ultimate judge of the issues involved. Agreements to submit to impartial arbitration, though increasingly common, are still voluntary concessions to common sense by the contracting parties; each continues to maintain, with some exceptions, its sovereign prerogative to be the supreme judge and executor of its own rights. This situation may mean that the law of the stronger prevails, if the stronger is willing to assert itself. Just as often, perhaps, it means that even a weak state is able to do manifest injustice and escape without penalty because the com-

War and the Private Investor

plainant state is unwilling to incur the trouble and expense, perhaps the political risk and the odium, of effective *ex parte* enforcement of its rights—and *ex parte* enforcement is the only type provided by the institution of national diplomatic protection. In either case the orderly and equitable adjustment of conflicts is impeded by this vital defect in the method of diplomatic protection.

Second, diplomatic protection tends to widen and complicate disputes, instead of narrowing and localizing them as an efficient institution of adjustment ought to do, for it enlists nationalistic feelings and stakes national prestige on issues of private origin. The rule that an injury to a citizen is an injury to his state ultimately results in the conversion of conflicts between private persons or groups of different nationalities, or between alien private interests and a national government, into disputes between *states*, if the issue turns upon the interpretation of international law, and if a “denial of justice” can be alleged. Thus, the institution of diplomatic protection operates to enlist on the two sides of a conflict, which may be basically the clash of rival private economic interests, all the formidable apparatus of armed sovereign powers, with their bellicose manifestations of nationalism, their jingoistic presses, their sensitive prides, and their constant concern for the maintenance of prestige. The quarrel between the X Oil Corporation and the landless villagers whose cause has been espoused by the revolutionary government of Mexico becomes a quarrel between the United States and Mexico; *Henry Smith vs. Heinrich Schmidt* becomes *England vs. Germany*. The conflict of unscrupulous traders in Samoa brings battleships to the scene and becomes a conflict between great powers. A satisfactory institution for the adjustment of such conflicts ought to tend regularly to localize them, to smooth them over, to play them down, to disassociate them from already existing antagonisms. The institution of national diplomatic protection regularly tends to spread them, to stiffen the attitudes on each side, to dramatize them and to merge new conflicts into the danger-

Private Investments and the Causes of War

ous accumulations of ill-feeling which may exist between contending states.

It may be said that this is regrettable but unavoidable. Is it not natural that a self-respecting state should count an injury to its citizen abroad as an injury to itself, and could citizens rightly be expected to forego national protection? The answer is that the institution of national diplomatic protection seems "natural" only because we are used to it, and citizens could easily forego its assistance if a more satisfactory institution were developed to take its place. This is not the place to discuss substitutes for diplomatic protection, but a significant question may be raised: When a New York owner of an Arizona silver mine feels himself injured by what he deems a confiscatory enactment of the Arizona legislature, does he "naturally" expect the government of New York State to make his complaint its own, and does he suffer because the government of New York State would never think of such a thing?

Third, diplomatic protection regularly operates to entangle justice with *haute politique* and with political expediency. Of course, it cannot be contended that justice ever has been or ever can be divorced from questions of expediency, but there are certain institutional arrangements for rendering justice which are less subject to the disturbances of extraneous interests than others. Diplomatic protection ranks very low in this respect.

It has been repeatedly emphasized that the basis of diplomatic protection is the doctrine that an injury to a citizen abroad is an injury to his state, and we have just seen that this tends to nationalize foreign investment conflicts. So insistent has the traditional theory been upon the point that only states, and not private persons, can have rights under international law, that current interpretations regard a claim for redress on account of injury to a citizen abroad as a claim *on behalf of the protecting state itself* and not on behalf of the person concerned. E. M. Borchard writes in his well-known work on *The Diplomatic Protection of Citizens Abroad*: "As

War and the Private Investor

the rules of international law and treaties constitute obligations between states their violation creates international responsibility, not to the individual, but to the state of which he is a member. This state, in demanding redress, does not represent the individual who has sustained the injury, and does not give effect to his rights, but to its own rights, the right, namely, that its citizens may be treated by other states in the manner prescribed by international law. This legal relation between states, however, may and usually does have as a consequence the indemnification of the individual injured, although he has no legal rights either to the protection of his own state or to the payment of the indemnity when received.”¹ In the United States, for example, the courts have held that the Secretary of State has practically unlimited discretion as to whether or not protection should be extended to an American citizen abroad in a given case. Diplomatic protection may be denied as a matter of public policy. “The government is the sole judge of what claims it will enforce, and of the manner, time, means, and extent of enforcement. It may refuse to present a claim at all. After espousal of a claim, the government may abandon it, submit it to arbitration or make any other disposition thereof which it deems expedient in the public interests. . . . The government’s power to settle the claim of its citizen against a foreign country is practically unrestricted.”²

This feature of diplomatic protection has two practical consequences of great importance, and the first is that the presentation and enforcement of a claim for redress becomes not simply a matter of right and justice, but of political expediency. An alien who complains of unlawful injury may receive much less protection than that to which he might be entitled in the view of an impartial judge, simply because his home government finds it inexpedient to press his claim vigorously, perhaps because it is seeking alliances with other powers concerned, or because there are mutinies in the navy,

¹*Op. cit.*, p. 18.

²*Ibid.*, p. 366.

Private Investments and the Causes of War

or because it hesitates to run afoul of a Monroe Doctrine or other "regional understanding." Again, he may be the beneficiary of diplomatic protection far beyond his just desert, because his government desires to pick a quarrel in order to complete a territorial conquest, because internal opposition to the party in power seems to call for a foreign diversion, or because a navy bill is about to come up and it seems desirable to impress the legislature with the usefulness of naval power. Legal rights may provide the formal basis for diplomatic protection, but political expediency has in practice been a more than significant modifier.

Illustrations can easily be recalled. The Mannesmann brothers claimed that the German government urged them forward in their Moroccan mining projects so long as its policy called for disputing French influence there, but showed no enthusiasm in defending their claims after the accord of 1909 had inaugurated a policy of compromise. French investors and speculators in Tunis before the occupation by France in 1881 received an extraordinary diplomatic support for their projects and were able to impose unreasonable demands for concessions and damage claims upon the government of the Bey. In Tripoli, while Italian statesmen were preparing that region for annexation, any conflicts which arose between Italian enterprise and the Turkish rulers were eagerly seized upon as pretexts for diplomatic intervention by Italy. The same was true of Russian private interests in Persia before the World War. The complaints of British investors in the region of the Persian Gulf and the Suez Canal were much more likely to receive willing and vigorous attention from their home government than were similar complaints from, let us say, Mexico, Colombia, and the Caribbean. Just the reverse was true of complaints by United States investors, while a century of diplomatic protection of United States citizens in Mexico revealed at times "a striking parallel between the upward and downward curve of American territorial and economic ambitions toward Mexico on the one hand and the concern with which American officials

War and the Private Investor

seemed to regard reported injuries to Americans in Mexico on the other. The same events which, in times of mounting ambitions, took on an aspect of extreme gravity, were at other times treated as minor misfortunes that might happen in any country."¹ The evidence is decisive that the system of national diplomatic protection in actual operation has shown a universal tendency to mix extraneous political ambitions and expediency with the determination of issues arising in connection with private investments. This tendency results from the nature of national diplomatic protection itself, is inseparable from it, and seriously disqualifies it as a useful instrument for the adjustment of investment conflicts.

Fourth, the manner in which diplomatic protection operates is oftentimes a direct incitement to antagonistic propaganda. This is the second consequence which follows from the fact that diplomatic protection is dependent upon the discretion of a national government and cannot be invoked automatically or as a matter of right by an injured party.

That is, investors are led to bring political pressure to bear upon their government in order to obtain vigorous support for their interests abroad.² That pressure may be exerted through direct contact with government officials, through influence upon party organizations, or through propaganda designed to influence public opinion and hence indirectly the policy of the government. The latter method is likely to have extremely important consequences for international relations, since the propaganda campaign is not likely to limit itself to a discussion of the issues at stake, but will usually include vituperation or misrepresentation directed against the foreign state whose actions are resented. In other words, while seeking to convert their own government to the adoption of a "strong" policy for the protection of their interests, the propagandists may succeed in stirring up a general public hostility toward another nation, and this hostility may be

¹Dunn, *Diplomatic Protection of Americans in Mexico*, p. 8.

²See Chapters 7 and 8.

Private Investments and the Causes of War

a very serious matter when other delicate negotiations arise. This incitement to antagonistic propaganda by interested pressure groups is a defect partly, but not wholly, remediable within the framework of diplomatic protection itself. The tendency referred to earlier for governments to set up joint claims commissions, with neutral umpires, and then to refer all claims of citizens on either side directly to these commissions without endorsement, obviates the evil to some extent.

Fifth, diplomatic protection provides too convenient a pretext or tool for aggressive political penetration by strong states. Historically, this aspect of the political problem of private investments under diplomatic protection has been the most dangerous to peaceful international relations and the most productive of serious conflicts. All the great powers have either directly or indirectly encouraged their business men and bankers to make investments in regions where it was thought necessary to strengthen the nation's political influence, and investments thus made have been incomparably more productive of international difficulties than investments made on the initiative of business men themselves and wholly for profit. Recall the Italian investments pushed into Tripoli before the Turco-Italian War, the Russian and Japanese enterprises pushed into Manchuria by their respective governments, the American government's deliberate promotion of economic holds on strategic centers in the Caribbean area, and the rivalry of France and Italy in Tunis.¹ Needless to say, an institution which operates so frequently in such a way is seriously defective as a device for orderly adjustment of investment conflicts.

Sixth, diplomatic protection stimulates conflict-provoking policies on the part of countries where politico-economic penetration is feared. This tendency has been noted in Chapter 14. The small and weak importers of capital feel that they are under the threat of domination by the stronger capital-exporting countries, and to protect themselves they often take legislative and administrative measures designed to

¹See other examples in Chapters 3, 4, 9, and 10.

War and the Private Investor

inhibit the political effects of foreign capital. These measures are likely to be unreasonable, and in any case irksome to foreign capitalists and their governments. The actual result may be to provide foreign powers with justifiable cause of complaint or to irritate them into a mood which hastens the very interference it was desired to avoid. Not only small, weak countries, but also rival great powers, may see in the foreign investments of private citizens sinister attempts to establish political hegemony in certain regions, and the resulting state of suspicion may interfere with perfectly legitimate non-political enterprise and stimulate international friction. Something of this sort took place in the Persian Gulf before the war, as has been recounted in the story of the Wönckhaus firm, Chapter 2. Thus, diplomatic protection actually stimulates injurious treatment of aliens and generates causes of controversy.

We have been considering the objectionable features of diplomatic protection which arise primarily out of the fact that the law of responsibility is applied by interested national states rather than by some impartial authority representing a larger community of states or peoples. A second type of defect in diplomatic protection as an institution for adjustment of investment conflicts results from its legalistic nature. The diplomatic protection of citizens abroad takes the form of a legal process. That is, the interposition of a government in matters ordinarily falling within the territorial jurisdiction of another government must be justified by the complainant state on the ground of some general principle of international law, which means that the injurious act complained of or the claim presented must be brought by a process of logic under some rubric of the international law of diplomatic protection—"denial of justice," lack of "due diligence," etc. The defendant state thereupon makes its reply, which is also cast into the form of legal logic, perhaps challenging the existence of certain rules of international law whose validity the complainant state has asserted, or perhaps invoking a totally different set of concepts from which a result favorable to the

Private Investments and the Causes of War

defendant can be deduced—"exhaustion of remedies," "sovereignty of states," or the like. Because of the legalistic nature of the representations made in the course of the actual application of the institution of diplomatic protection, questions of protection are ordinarily handled by the law officers of the Department of State and of other foreign offices.¹

There are two difficulties with this legalistic approach to the adjustment of international investment conflicts. The first arises from the vagueness or the unsettled condition of many of the rules of international law on which diplomatic action is supposed to be based. This is unavoidable at present.²

The other difficulty is fundamental. The really serious problems raised by international investment conflicts are often, as we have seen in the two preceding chapters, due to the disturbing social changes and the clashes of diverse cultures associated with capital migration. In other words, these problems arise under circumstances for which there are no exact precedents and in settings to which the scale of values, the ethical system, and the legal system of any one culture cannot be unreservedly applied. Yet the traditional legal process employed in the institution of diplomatic protection proposes to deduce the answer to such problems from an assumed body of preëxisting rules and principles. Legal scholars devote themselves to the study and elaboration of these rules

¹Dunn, *Protection of Nationals*, p. 21.

²Insofar as the current efforts at the codification of international law are successful in bringing about more precise definitions and more general agreement as to what may be considered established principles this particular difficulty will be lessened. But the problem of codification is much more than a mere matter of finding a precise formulation for accepted doctrines of law. It is also a difficult legislative process, involving the reconciliation of diverse points of view and often of sharply clashing interests. This was amply demonstrated in the field of the law of diplomatic protection by the experiences of the conference on codification held at the Hague in 1930. Its carefully prepared deliberations ended in a deadlock between the weak states and the strong states as to whether international law entitles an alien merely to treatment as good as that received by the citizens of the country where he is residing, or whether his state may claim for him a certain minimum standard of justice, regardless of the conditions endured by native citizens. This difficulty which the unsettled state of international law imposes upon diplomatic protection as an instrument of social adjustment is not likely to be soon removed.

War and the Private Investor

and principles, while the lawyer and the man in the street assume that, with a knowledge of this body of legal precepts, one can know with reasonable certainty how particular cases will be decided in the future.¹

In actual practice, however, the traditional legal process does not bring everyone who applies it to the same problem to the same inevitable answer. Especially as applied to the materials of diplomatic protection it creates only a relatively low degree of probability that such will be the result. Legal logic enables one to predict, not what decisions will be arrived at in novel cases, but what rationalizations will be used to support the decisions after they have been reached. The traditional legal process does not permit the probable social consequences of crucial decisions to be considered openly and intelligently, and thus it leaves the door wide for a variety of unacknowledged factors to influence the actual determination of the issue.²

¹Dunn, *Protection of Nationals*, pp. 70-71.

"According to the prevailing view, the solution of legal problems seems to consist; first, in the ascertainment of the 'facts' of the case; second, in the classification of these facts under some preëxisting legal category or categories (such as 'confiscation,' 'revolutionary damages,' 'denial of justice,' 'false imprisonment,' etc.); third, the identification of the rule, principle or standard which applies to this class of events; and finally, the deducing of the answer from this rule, principle or standard by logical processes. In other words, finding the law which governs a particular issue is a process of discovery of preëxisting things and of formal logic or syllogistic reasoning, in which the general rule or principle forms the major premise and the facts of the case at issue the minor premise. By this method the conclusion is presumed to be reached by formal laws of thought, from which all individual prejudices and predispositions are removed. This process is sometimes spoken of as a 'government of laws and not of men,' meaning that, given a particular set of laws, the decisions reached thereunder are impersonal and inevitable. Everything necessary to the determination of the law controlling a question in issue is supposedly already in existence before the question itself arises, and all that is required is to discover and apply these preëxisting realities to the facts of the case at issue." (*Ibid.*, pp. 71-2.)

²Some of these "unacknowledged factors" which Mr. Dunn has listed as important in the day-to-day determination of legal issues by foreign office authorities, diplomats, arbitration courts, and others who apply the law of diplomatic protection are: (1) the necessity of deciding one way or the other; (2) "the administrative factor"—that is, a reluctance to consider new ways of meeting problems if such methods threaten to upset going arrangements or existing habits of thought; (3) the desire to win the approval of fellow practitioners of a profession; (4) "the institutional factor"—a tendency to favor decisions which increase rather than diminish the importance of an institution on which one's social status or livelihood depends; (5) "the prophylactic factor"—illustrated by the tendency to decide more

Private Investments and the Causes of War

For example, suppose that the Mexican government proposes to expropriate large landed estates, including those owned by foreigners, in order to provide its landless citizenry with small holdings. It offers its own bonds in compensation, to the amount at which the land has been valued for tax purposes. These facts present certain novel features which make it impossible to decide by logical deduction alone which of several categories they shall be held to fall into: "confiscation," "non-confiscation," "public utility," "vested rights," "denial of justice," "domestic question," etc. Yet the decision as to the legality or illegality of the measure at international law depends upon what category is selected. "Unless we make the choice blindly or intuitively, we are forced to consider the consequences of classifying the act in one category or another, and to choose that set of consequences which we think most desirable." But the traditional view of the legal process forbids any such conscious consideration of the consequences of rival courses of action. The decision must be made to turn solely upon logical deduction from previously established rules and principles—even though logical deduction offers no way of determining which of several rival principles shall apply. By insisting upon adherence in form to a process which is incapable of yielding determinate results in cases outside the routine—and these are the important, controversial cases—the traditional legal method actually forces the decision to turn upon unconscious, intuitive, or at any rate unacknowledged factors.

It should be repeated that any attempt to meet the problems now handled through diplomatic protection by the de-

readily that international responsibility exists when complaints are received from a country in great numbers than when they arise as isolated events, (6) the revenge factor; (7) the carry-over of local ideas or the ideas of a particular social stratum into the realm of international law; (8) the factor of nationality, especially where, as is often true in diplomatic protection, the deciding official is also charged with the duty of protecting the interests of his own country—is advocate as well as judge; (9) the economic or political interests involved on either side; (10) "the word factor," that is, the emotional content, likely to be different for each individual, of such highly charged verbal symbols used in legal discourse as justice, sovereignty, independence, honor, dignity, vital interests, equality, duty, and responsibility. (*Ibid.*, Ch. VI.)

War and the Private Investor

velopment of some other institution of adjustment, such as international judicial settlement, would be subject to the same criticism insofar as it proceeded along purely legalistic lines. Conciliation, compromise, consideration of social policy and readjustment to new situations are needed in the adjustment of international investment conflicts as well as, or more than, the logical application of judicial maxims. Diplomatic protection itself, in the hands of statesmen with social vision and a sense for the realities of a situation, can be employed in a far-sighted manner, despite its handicap of legalisms. It is unfortunate, however, that the nature of this particular institution tends to favor its operation by legal minds in a field where the broadest social understanding is called for.

This concludes our survey of the advantages and disadvantages of national diplomatic protection as an institution for the adjustment of international investment conflicts, but there is one final question worth raising. Viewing the matter for a moment from a narrowly restricted standpoint, that of the pecuniary interest of the private foreign investor alone, is it as certain as commonly assumed that diplomatic protection has really operated to his net advantage? Has diplomatic protection actually protected international private investments? If it has protected investments and made them possible at some times and places, it has also at other times and places imperilled investments or restricted the opportunities for them. A balance sheet might be drawn up as follows:

Services of National Diplomatic Protection to Investors

Prevention of many injuries, by restraining governments or officials that would otherwise treat aliens unjustly, by imparting prestige or inspiring awe.

Indemnification for injuries on occasion.

Provision of a sense of confidence and security which results from the investor's knowledge that his home government will endeavor to help him in case of need.

Disservices of National Diplomatic Protection to Investors

Creation of an illusion of protection and redress available against unjust treatment, when protection and redress actually

Private Investments and the Causes of War

depend more upon political expediency than upon just cause of complaint.

Entanglement of non-political business operations in a web of suspicion, intrigue, and obstruction, inspired by the knowledge that such operations may be used as tools of political penetration.

Creation of special difficulties for business men who are citizens of a state whose political power is feared; discrimination against them; loss of goodwill.

Aggravation of international conflicts. Insofar as this helps to cause war, it results in great losses to investors through destruction or confiscation of property, intensification of nationalism, and business depressions ascribable in part to post-war reactions.

This rough tabulation sets over against each other items which are not subject to estimate in quantitative terms; it is impossible to strike totals and arrive at a net result. But the query is justified: All things considered, does the national diplomatic protection of investors abroad really protect more than it handicaps or imperils?

SUMMARY

The argument of this chapter may now be briefly recapitulated: The institution mainly relied upon today for the adjustment of international investment conflicts is known as the national diplomatic protection of citizens abroad. It does give the person who goes abroad or sends his property abroad the assurance that at least some attempt will be made to see that he enjoys a minimum of security and fair treatment, as those terms are understood in this country, and thereby provides a necessary basis for international economic intercourse. It does provide a method of procedure whereby many disputes are settled. It does perform a preventive function at times, inspiring more considerate treatment of aliens and hence reducing the occasions of conflict. It may have served as a substitute for territorial conquest in bringing certain states within the orbit of international economic intercourse. These are weighty arguments in support of diplomatic pro-

War and the Private Investor

tection if we assume that there are no alternative ways of performing the same functions. The objections to national diplomatic protection as an institution for the peaceable and orderly adjustment of investment conflicts are numerous and grave.

1. It places reliance upon a process of judgment and execution by interested parties, a thoroughly discredited method of rendering justice and a method calculated to intensify disputes.

2. It has the effect of enlarging rather than restricting conflicts by enlisting national feelings and staking national prestige on disputes of private origin.

3. It entangles justice with *haute politique* and makes it subordinate to political expediency.

4. It stimulates antagonistic propaganda of a sort likely to heighten international friction, thereby making conflicts less easy to adjust.

5. It provides a readily available pretext for aggressive political penetration by strong states.

6. It induces some countries to adopt policies hostile to foreign capital through fear of penetration; these policies provoke more conflicts and generate more friction.

7. It encourages a legalistic approach to the problems raised by international investment conflicts, an approach which tends to inhibit the conscious and intelligent consideration of social consequences. This same criticism would apply to any attempt to meet the problems of investment conflict on a purely legalistic basis, whether through national or international agencies.

CHAPTER 17

Underlying Causes of Investment Friction

WHAT are the underlying causes of international investment friction? The answer to that question could carry us far back toward the philosophical problem of first causes, or into a discussion of the biological heritage of man, or even into the forces which hold the earth in its path around the sun. In a sense, every past development in the history of civilization has helped to "cause" modern international investment frictions. There is no intention, of course, to push our inquiry to such ultimate lengths, though it is useful to point out that the total setting of modern human society is a conditioning factor in the origin of investment friction. For example, the existence of different geographical regions with different resources and potentialities, the existence of various peoples under various forms of economic and social organization, the fact that certain inventions of great significance in transport, communication and industry have been made and have been adopted unequally over the earth's surface, the existence of language groups and racial groups with certain social attitudes among themselves and towards each other, the political and cultural developments associated with the rise of the national state—all these things and many others are among the underlying causes of international investment friction. Some of these factors, however, must be regarded

War and the Private Investor

as constant elements in the situation which we wish to analyze, especially if our ultimate purpose is control, for they are either unchanging and unchangeable by human action, or are subject to such slow changes as to be constant for all practical purposes. By the "underlying causes" of investment friction which interest us here, therefore, we shall understand those factors which are fundamental enough so that alteration in them might be expected to have a significant effect on the problem, and yet not so deeply fundamental that they are entirely fixed or uncontrollable.

By bringing together the threads of the argument developed in the last few chapters we can now state the most important of these underlying causes in relatively simple fashion. To review briefly: The investment of capital is a form of international contact which contains the potentialities of a great variety of conflicts. Many of these conflicts arise directly out of the economic relationship itself: the debtor-creditor conflict, the labor-capital conflict, the tenant-landlord conflict, the conflict between investors seeking the most attractive investment opportunities, the conflict between joint creditors of the same doubtfully solvent debtor. Others are one step or more removed from the immediate economic interests involved, but are political or cultural concomitants closely associated with international capital investments: the conflict between dwellers in a land and its economic exploiters, the conflict arising from a clash of divergent cultures, the conflict between social reform and vested property interests, the conflict between desires for economic and political independence and the real or imputed "foreign domination" which the interdependence resulting from capital relationships may be felt to entail, the conflict between rival national expansionisms to which investments are related in complex but important ways. These potential conflicts occasioned by international private investment are numerous, real, and difficult. But why do they tend to take the acute political form of diplomatic clashes, wars, or threats

Private Investments and the Causes of War

of war between governmental units—that is, between national states—when conflicts just as direct within the bounds of a single nation do not ordinarily take such forms? The answer lies in the ineffectiveness of the social institutions thus far developed for the adjustment of investment conflicts involving persons or interests of diverse national loyalties. In the last chapter we have just seen that the system of national diplomatic protection, which is the corner stone of present-day procedure for dealing with the problems raised by international investment conflicts, depends upon a process of judgment and execution by interested parties, enlarges rather than restricts conflicts, entangles justice with *haute politique* and political expediency, stimulates antagonistic propaganda, provides easy pretexts for aggression, leads states to adopt anti-alien policies which themselves provoke trouble, and encourages reliance on a legalistic process which cannot solve the problems raised by international investment conflicts. Truly, if judgment is to be rendered according to such criteria as, (1) a tendency to adjust investment conflicts with a fair measure of reasonable and disinterested justice, and (2) a tendency to do so in a manner that lessens the likelihood of investment conflicts becoming causes of war between nations, then the institution on which chief reliance is now placed for the settlement of international investment difficulties must be regarded as seriously defective.

The underlying causes of international investment friction, then, may be expressed in the following summary statement: We have a form of world-wide *contact* (capital investment) which inevitably raises *conflicts*, but the social machinery for *adjustment* of these conflicts is so ill-adapted to that function that it often succeeds instead in transforming them into acute political antagonisms. When that happens, and especially if the upshot is international war, the net social result is that the conflicts may still exist, perhaps in an aggravated form, after the war, plus new ones caused by the war, while the incidental economic and social destruction costs each side much more than it had at stake in the pre-war conflict. The

War and the Private Investor

problem of statesmanship is to break into this vicious circle by altering some of the causal factors.¹

Let us inquire more narrowly, Why are existing institutions of adjustment so ill-adapted to the problems of international investment conflict? Historically, it is easy to see how the situation came about. The amazing technological changes of the last century or two, especially in the fields of transportation, communication, and industrial production, created a veritable revolution in the economic relationships of the various parts of the world. This raised new conflicts, new problems, which the old institutional arrangements were not equipped to handle. Yet it was not possible immediately to abandon the old institutions and construct new ones out of whole cloth. "Der Mensch knüpft immer an Vorhandenes an,"² the new could only develop gradually out of the old. Thus, as technology and the economic relationships closely associated with technology proved to be less subject to the restraining influence of traditional forms and beliefs than were men's political loyalties—including their patriotisms and their ideas on government, politics, and the control of economic activity—economic change tended to run ahead of political readjustment. Particularly was this true in the international field, and the result today is a set of world-wide economic interrelationships, characterized by close contact, by interdependence, and by conflict, while the institutions of adjustment are still rooted in the inadequate national base. We find ourselves in a period where the area covered by the closely knit economic organization of trading and investment has far outstripped in extent the area of closely knit political

¹It is untrue, though often asserted in after-dinner speeches, that international capital investments and increasing international contacts of other kinds work in the direction of world peace by "bringing the peoples closer together." Until effective institutions of adjustment are worked out, merely bringing peoples closer together tends to produce friction, not peace. So long as peoples stay apart they do not fight. The Bolivians have never fought the Persians. The first effect of new contact between strange groups is likely to be conflict. Peace between groups in contact depends upon a continuous process of adjustment and has to be achieved, it is not automatic.

²Wilhelm von Humboldt, quoted in Tylor, *Primitive Culture*, Ch. 1.

Private Investments and the Causes of War

organization. This fatal non-congruence between economic areas and the political areas on which institutions for the regulation of economic activities are based is the factor of most fundamental importance in understanding or dealing with the so-called "economic causes" of war in general, or international investment friction in particular.

For example, investments of Englishmen in the Near East, of Germans in the Near East, of Frenchmen in the Near East, have set up potential conflicts between Near Easterners and Englishmen, Near Easterners and Germans, Near Easterners and Frenchmen, also between Englishmen and Germans, Englishmen and Frenchmen, Frenchman and Germans. Add Americans, Dutchmen, Swedes, Italians, and South Africans to the list of investors, add Central America, China, Canada, and the investing countries themselves to the places where investments are made, and the situation only begins to approach the complexity of reality. These potential conflicts, which are continually turning up as more or less serious actual conflicts, cover almost the whole world with their network of relationships. Yet the national state is the typical social area on which existing institutions for the adjustment of investment conflicts—international as well as domestic—are based. For domestic investment conflicts, the institutions of adjustment based on the national state include within their jurisdiction all parties and interests involved in the conflicts. The area of possible conflict is not greater than the base area of the institutions of adjustment. But for international investment conflicts there is no all-inclusive, political unity or political jurisdiction which enfolds at once all parties and interests; they fall within the partial and overlapping jurisdictions of many national states, on which existing institutions of adjustment are based. The result is that international investment conflicts are not only ineffectively dealt with—from the standpoint of justice to the parties, for example—but that they tend to involve the national states in friction with each other.

Let us return for a moment to an illustration used previ-

War and the Private Investor

ously in order to make this vital point still more clear. Suppose that a New York corporation undertakes to acquire and operate mining lands in Nevada, to set up a smelter and perhaps a factory, and to build a short railway connecting its different enterprises. There are two functions of government in connection with such capital investment which have been recognized nearly everywhere in the capitalistic world. The first may be described as smoothing the way for investments. It consists in providing, or encouraging the provision by others, of certain fundamental services such as transportation facilities, maintenance of means of communication, collection of important economic information, and the guarantee of a certain elemental minimum of law and order, sanitation, and the like. As the New York investors prepare to start work in Nevada they make use of maps supplied by the United States Geological Survey and of technical information gathered by the United States Bureau of Mines. They will, of course, find access to Nevada easy on account of a railway system encouraged in the first place by the federal government, which undertook many years ago to "open up" the unexploited West. Notice that it is not by any means the State of New York which has smoothed the way for the investment of New York capital in Nevada, except as New York participates in the federal government of the United States, whose sphere of activity and jurisdiction includes both the investor and the region of his proposed investment. The second usual function of government consists in the supervision of investment contacts once made, including the enforcement of whatever property rights are commonly accepted, provision for security against depredation, and provision for recourse in case an aggrieved party claims injustice has been done him. Suppose that the New York corporation finds itself in dispute with citizens of Nevada over the terms of a contract for the delivery of supplies. It need have no fear that the matter will be settled arbitrarily by prejudiced local courts, for on account of the diversity of citizenship of the two parties the case can be tried in the

Private Investments and the Causes of War

United States federal courts.¹ Suppose that after the New York corporation has been operating in Nevada for some time the Nevada legislature passes a new land law, or a mining code, or a new piece of labor legislation, which in the opinion of the investor has the effect of confiscating his previously acquired rights. Again, appeal lies to the federal courts and ultimately to the Supreme Court of the United States. Both the investor and the citizens of Nevada may be assured that the conflict will be settled, if not to the complete satisfaction of both parties, at least in accordance with a well-established body of law applied by courts which are neutral as between the local interests of Nevada and the propertied interests of outside owners. Similarly, if Nevada passes a tax law which, in the opinion of the New York investor, discriminates unjustly against his property, that question also can be threshed out and settled in the courts of the federal government. Once more let it be remarked that in all these proceedings the State of New York takes no hand. It has no official interest in the profits and losses of its citizens in Nevada, nor in their just or unjust treatment by the governing authorities of that sister state. Rather, the functions of promotion and protection of capital migration between New York and Nevada are entrusted to the federal government, which proceeds upon the basis of laws accepted by the citizens of both regions. There may be sectional differences, even antagonisms, between capital-importing states like Nevada and capital-exporting states like New York, but they are fought out in federal legislative assemblies, where relatively neutral opinion is also present, not in diplomatic interchanges between the governors of New York and Nevada. The same holds for rival capital-exporting states like New York and Illinois.

Now let our New York corporation become a corporation of Country X, and let it establish a similar enterprise—a

¹The judicial power of the United States "shall extend . . . to Controversies between two or more States;—between a State and Citizens of another State;—between Citizens of different States;—between citizens of the same State claiming Lands under Grants of different States, and between a State, or the Citizens thereof, and foreign States, Citizens or Subjects." (Article III, Section 2, U. S. Constitution.)

War and the Private Investor

mine, smelting plant, factory, and railway—somewhere abroad, in Country Y. All the economic factors are exactly the same as in the first instance, and exactly the same conflicts of interest arise. But now a national boundary runs between the domicile of the corporation and the scene of its operations; so the legal, political, and social situation is vastly different. Country Y may be jealous of its sovereignty and independence, fearful of economic or political domination by a great power like Country X, and therefore suspicious of capital from X. Country X, in turn, may be proud of its world importance, concerned about the maintenance of its prestige, anxious to protect its investors. It maintains government departments with trained agents abroad whose duty it is to seek out opportunities for the enterprise of its nationals. Doubtless one of these agents, perhaps the regular diplomatic representative of X in Country Y, assists our corporation in setting up its foreign establishment. At least, the important activities of the corporation will be reported and tabulated in both the commercial and political departments of the government back home in X. Very likely the steamship line which transports mining machinery from X to Y was established originally under subsidy from the government of X, in order to open up a new region for its trade, or to meet the competition of subsidized lines from some other country. It is not unlikely that the cable, the airplane line, the radio station, even the interior railway and telegraph lines serving Country Y, have been installed under the direct subsidy, or the encouragement and watchful guidance, of some outside national government—not by a world government.

A dispute arises between our corporation and citizens of Country Y. If the courts of Country Y take an attitude which impresses the directors of the corporation as a flagrant denial of justice they have no recourse except to the diplomatic protection of their own government. There are no international courts (corresponding to the federal courts in the New York-Nevada instance) to which a private corporation

Private Investments and the Causes of War

can appeal. There is no "federal" law, including both the domicile of the investor and the scene of his operations, to which a corporation has access in its own right. Only states, not private persons, have rights under the classical international law. The question then becomes one between the governments of two national states, and as it thereby ascends into the realm of high politics it is very likely to receive either more or less vigorous attention than the issues would demand in themselves, depending upon the international political situation at the time, and on the influence which our corporation or its antagonists can bring to bear upon the governments involved.

To return to the specific problem of the failure of national diplomatic protection as an institution for the adjustment of international investment conflict, it seems clear that the failure has resulted not so much from incompetence or bad faith on the part of those who administer the system, but rather from the unworkableness of the system itself. The principle of national diplomatic protection is fundamentally ill-adapted to the adjustment of international investment conflicts. These conflicts are world-wide, super-national, in scope. Diplomatic protection proposes to settle them by nationalizing the interests involved—that is, making each interest into the interest of some national state—and then instituting negotiations between national states. This procedure has two principal defects. First, it resorts to a system of quasi-anarchistic bargaining between states which, because of their "sovereignty," claim to acknowledge no ultimate authority higher than their own interpretation of their rights and duties. Second, it makes little, if any, provision for continuous, day-to-day administration and supervision of the conflict-producing contacts—which is of the essence of successful institutions of adjustment—but goes into operation mainly after a dispute has developed.

As to the first defect, negotiations between independent, proud, and armed men or groups of men, each recognizing no authority higher than that imposed by self-interest or

War and the Private Investor

self-interpreted codes of honor, may be a sufficiently satisfactory form of social adjustment under certain conditions. These conditions must include relatively infrequent contact, so that the occasions for conflict are not many, and relatively little interdependence of the sort inseparable from coöperation, specialization, and exchange, so that the interruption of such processes does not do serious damage. These conditions may have been fulfilled at certain times and places: for example, in isolated regions inhabited by nomadic tribes, or in pre-industrial societies like those of medieval Europe, where the contacts between manorial villages were irregular and superficial. But a system of anarchy—for it is literally a system of anarchy, “no-government,” that we are discussing—has never been found workable for the adjustment of the conflicting relationships that develop in a community of men whose members are in fairly close and constant contact. Certainly the conflicts which arise in connection with the close contacts and the interdependent relationships of capital investment can never be handled in a just and peaceful fashion through the quasi-anarchistic system of inter-governmental bargaining by proud, sovereign, and armed states.

Nor would the development of a universal custom of arbitration among these states, or a court of international law with compulsory jurisdiction over all states, remove the fundamental faults of diplomatic protection.¹ The essence of successful institutions for the adjustment of economic conflicts can never be the mere settlement of disputes. Rather, there must be continuous, day-by-day supervision of the conflict-producing activities—therefore, administration and enforcement of accepted rules. The rules themselves must be alterable to fit new situations, and they must respond to shifts in social power—that is, there must be legislation, and provision for a continuous process of legislation. Finally, there must of course be provision for the settlement of disputes that cannot be forestalled by measures of general

¹Of course, such developments might nevertheless be worth while.

Private Investments and the Causes of War

policy—which means fact-finding, conciliation, judicial settlement. All this, and more, is included in the term “institutions of adjustment” wherever it has been used in this discussion. It is evident that the successful operation of such institutions depends upon the development of a continuous, permanent supervision over the conflict-producing activities by an authority having a jurisdiction and commanding loyalties as wide as the area of the activities and conflicts themselves. In the case of international investment conflicts, this means a world-wide *government*, not over the political relations between the states of the world, but directly over investment activities themselves when these cut across the jurisdictions of several national states. It means a continuous process of world-wide legislation and administration to regulate those international boundary-crossing relationships which produce conflicts. It means provision for the settlement of disputes, not between states sponsoring the interests and engaging in the conflicts of their citizens, but directly between citizens of different national states without involving the national governments at all.

The point that the most effective institutions for the adjustment of economic (and other) conflicts which arise in society do not consist merely, or even mainly, of machinery for the settlement of disputes can hardly be too strongly emphasized. When one asks, “What institutions preserve the peace between the inhabitants of a city, some of whose interests must be coming into conflict daily?” the most obvious answer may be “the police” and “the courts.” But a little reflection is enough to show that these institutions deal with conflicts which have come to the dispute stage or the stage of overt acts of violence, and were it not for many other institutions, governmental and non-governmental, which operate to forestall such acute developments the police and the courts would be swamped in the resulting chaos. For example, courts might be charged with the settlement of claims for damages which arise out of the sale of impure foods or drugs by a merchant to a consumer. But it is far

War and the Private Investor

more effective in a society like ours to install a meat inspection service and to examine and license dispensers of drugs. Shall we say that these administrative agencies, which tend to prevent the conflicts between the interests of merchants and the interests of consumers from taking acute forms, are any less institutions of adjustment than the courts? Similarly, statutory provisions about the manner in which contracts shall be drawn, the setting of minimum standards of health, safety, and comfort for workers in factories, copyright laws, and traffic regulations, all illustrate the operation of institutions of adjustment. All those agencies which contribute to the smooth functioning of the social and economic organization, which make it responsive and adjustable to changing situations, which tend to reduce the friction resulting from multitudinous contacts charged with potential conflicts—in a word, *all the agencies of social cohesion and coördination* are institutions of adjustment, insofar as they function effectively, and within the social areas to which they extend. If investment contacts, with their inevitably associated conflicts, are to continue on a world-wide scale; and if an intelligent effort to minimize the international friction from these contacts leads us to seek to develop institutions of adjustment on a similar world-wide scale—then it is plain from the foregoing that our problem is immensely more than one of setting up international tribunals or preaching goodwill and coöperation among separate national units. The problem is one in the control of world-wide economic contacts through corresponding political and social organization on a world-wide base. The successful development of such organization is limited by the extent to which a sense of world-wide social cohesion, a sense of world citizenship and world loyalties, can be made effective.

PART III: TOWARDS A POLICY

CHAPTER 18

Alternative Courses of Action

IT IS not the job of the scientific researcher, as such, to tell people what they ought to do. His task is to discover principles, to understand and elucidate relationships. The pure scientist in the field of biology busies himself with studying the laws that govern the functioning of living cells and organs and tissues, not with curing disease—though the understanding of principles to which he contributes certainly increases the power of physicians to cure disease. Likewise the pure scientist in the field of international economic and political relations investigates the laws that characterize these social relationships, and in his rôle as scientific investigator he offers no remedies for the ills of the world, only increased understanding of cause and effect. Yet a special obligation rests upon anyone who attempts to apply scientific methods of investigation to such problems as the causes of disease or of war. He must expound his results in a way that will make them practically available, as effectively and accurately as possible, in the struggle of humanity against these things which men are nearly unanimous in regarding as evils. That is the obligation which these last two chapters attempt to fulfill. Parts I and II have pursued the inquiries of the pure scientist—"What?" and "Why?" Now we drop the rôle of pure, objective inquiry into cause and effect, definitely accept as desirable the accomplishment of certain ends—namely,

War and the Private Investor

the lessening of international investment friction—and ask “How?” What advice can be given those statesmen and public-spirited citizens who genuinely desire to work intelligently toward the elimination of the causes of war associated with international investment of private capital? First of all, what general direction should their efforts take?

The search for the underlying causes of international investment friction has revealed that capital investment is a form of contact peculiarly apt to occasion conflict, while the existing institutions for the adjustment of these conflicts are not only inadequate but are fundamentally ill-adapted to the task. The defectiveness of the institutions of adjustment arises largely from the fact that the areas of political loyalty and political organization on which they are based, are smaller than the area of conflict-producing contact, which today includes practically the whole world. Now, if the considerations advanced thus far are essentially sound, it follows that there are just two directions in which a reduction in the amount and intensity of international investment friction may be sought: 1) through contraction of the area of investment contact (and hence of investment conflict) to the areas of well-established institutions of adjustment, which means the confinement of investment relationships within national boundaries by the elimination of international investment; 2) through enlargement of the area on which institutions of adjustment applicable to investment conflict are based, which means development of world-wide political loyalties which will support a world governmental authority with jurisdiction over international investment contacts. Any workable and intelligent policy for the statesmanlike handling of the international investment problem must move in one of these two directions.

With these general considerations in mind we now turn our attention to the appraisal of various policies which have been practised or which may be suggested in connection with the problem of reducing the political friction connected with international private investment. These policies may be

Towards a Policy

grouped according to their basic characteristics under three general headings, and will be so discussed: 1) mere anti-imperialism, 2) national supervision of investments abroad, 3) denationalization and mondial¹ supervision of international investments.

MERE ANTI-IMPERIALISM

The type of policy which is here labelled "mere anti-imperialism," takes one of two main forms: either a demand for the *prohibition of capital exports*, on the ground that they are sure to get into difficulties abroad, whereupon the nation will be called upon to sacrifice lives and money to pull the investors' chestnuts out of the fire, or a demand that *investors should assume their own risks when they invest abroad*, with the distinct understanding that their home government will follow a hands-off policy when difficulties arise. Now the trouble with both of these proposed policies is that they tremendously over-simplify the complex problems raised by investment contacts and in the long run could not possibly work. They nevertheless provide the basis for persuasive oratory, largely because their very over-simplification offers an easy channel for emotional reactions against the serious evils connected with political and economic imperialism. Justified as such emotional reactions may be, they are more likely to yield desirable results when harnessed to careful thought.

The apparently simple solution by prohibition of capital exports is neither possible nor desirable. In the first place, it would do nothing to solve the problems connected with the enormous existing international investments, the result of past capital exports. In the second place, it is utterly futile to expect that a permanent and effective ban against the form of international relationship represented by capital investment can be maintained in a world of close contact, shrinking distances, and well-established traditions of international

¹The meaning of this special term will be explained later.

War and the Private Investor

intercourse.¹ There is no indication that the trend toward improved technology in transportation and communication will be reversed, and so long as this trend continues it will provide a persistent and overwhelming pressure toward heightened international contacts. Whether these ever more intense and more abundant contacts will lead to an insoluble tangle of conflicts and a long period of chaos cannot be foretold. That depends upon man's success in refitting his institutions of adjustment to the wider scale of contact. The wider contacts themselves cannot be prevented. To be sure, the measures of economic nationalism so widespread in the world today may for some time restrict international economic intercourse, but the more successful such measures are for the time being the more surely do they lay up troubles and painful readjustments for the future. The economic life of the modern world simply cannot be kept in separate compartments, unless we assume a "breakdown" of modern civilization which will destroy modern technology, because the fundamental forces pushing steadily toward closer contacts are too powerful. Capital, if what we know as "civilization" continues, will flow from place to place on the earth, and this statement will be true whether capital is privately or collectively owned in the future. Thus, the first alternative suggested earlier—that of eliminating international investment contacts as a means of eliminating international investment friction—turns out upon examination to be no alternative at all. The problem of international capital investment cannot be avoided; it must be faced.

Furthermore, it must be remembered that even if it were possible to prohibit international capital exports many economic advantages would be lost in the process. The flow of capital from industrialized to non-industrialized regions, the opening up and exploitation of new natural resources, the consequent increase in the efficiency and variety of world

¹The possible development of a world in which all international economic contacts might be centralized in the hands of the separate national states themselves, eliminating *private* international investment, is a case considered later.

Towards a Policy

production, are intimately related to the relatively high living standards of modern times. If mankind wants to maintain and improve these standards it would be poor policy to prevent the shifting of capital from place to place.

Perhaps the more common form of mere anti-imperialism is not a demand for the prohibition of capital exports, but for a hands-off policy on the part of national governments toward the vicissitudes of their citizens who launch enterprises abroad. The argument is not that investments should be supervised or protected by some other agency than national governments, but that the investor should be left to take his chances in the locality to which he goes. There are two questions to be raised about such a policy of *laissez-faire*. First, *can* the investor be left alone to assume his own risks and to accept whatever treatment is meted out to him abroad, including gross violation of agreements and other palpable injustices which may possibly occur with the connivance of government officials themselves. Second, is it socially desirable that he should be left to his own devices in such contingencies? The answer to both questions is "No."

The influence of the investing class, at least in some countries, is too strong, and the practice of national solidarity abroad is too deeply imbedded in moral tradition as well as legal doctrine, to expect national diplomatic protection to be superseded by any such negative policy as let-the-investor-take-his-chances. Such an expectation is all the more illusory in that no one government could afford to adopt a negative attitude toward requests for diplomatic aid from its investing citizens abroad unless other governments were doing likewise, for that negative policy could be interpreted as giving an unfair advantage to foreign business competitors abroad. No government can bear such an imputation. The adoption of a merely negative policy on diplomatic protection would have to be by practically unanimous agreement of the capital-exporting powers, and unanimous acceptance of the doctrine that the investor abroad must take his chances, is, to say the least, improbable.

War and the Private Investor

Furthermore, it does not seem desirable, either from the standpoint of capital importers or capital exporters or the world at large, that such a doctrine should be accepted. If capital investments (whether by private individuals or socialist states) are to continue to be a form of international contact, they should be carried on under certain generally understood rules which should have a reasonably effective sanction behind them. One of the most elementary of these rules is that contracts entered into between two parties are not voidable at the wish of one party without the consent of the other. Others are that land, buildings, and equipment lawfully acquired by foreign investors are not subject to arbitrary seizure by governmental authorities; that the local police authorities and the courts must not be led by prejudice or interest to deny a reasonable measure of justice to foreigners; and that the power to tax may not be applied with gross discrimination against the property of foreigners. This is not to argue for a dogmatic and rigid application of such rules. They should be applied with wise flexibility and due regard for the realities of social situations, especially where a genuine social revolution seems to be in process. But they need to be applied, if there is to be a workable basis for peaceful investment contacts, and experience has abundantly shown that some organized means of enforcement is necessary from time to time in certain countries. National diplomatic protection is not the best and most impartial means of enforcement, but the mere negation of enforcement, leaving investors without recourse against no matter what arbitrary acts of no matter what sorts of government in countries where they have placed capital, is neither a workable nor a desirable alternative.

Consider, for a moment, what might be the results of a policy of *laissez-faire* toward the interests of investors in countries not their own. In many countries the withdrawal of all recourse for aliens would make very little practical difference. These are the countries where customs, political institutions, and legal standards are sufficiently like those of

Towards a Policy

the capital-exporting nations so that they are impelled by their own views of what is proper to afford foreign investors a high degree of security. Trouble would arise mainly in those countries where unstable political conditions, frequent revolutions, non-industrialized cultures, or nationalistic flare-ups, make investment conflicts peculiarly difficult. One result might be that foreign investors would avoid such countries, lacking any assurance of outside support. That would mean much higher interest rates than those which now prevail on advances to governments or private persons in these countries, less investment of capital in productive developments, and loss of economic benefits both to the relatively undeveloped countries themselves and to those regions which would have bought their products. It would mean that operations in relatively insecure countries would be given over to the worst class of speculators, rather than bona-fide investors with relatively sound plans. This would not make for peace and order. Another result would very likely be intensified interference by alien investors—those who could not withdraw investments already existing, or who would be attracted by the prospect of high, but risky, returns—in the domestic political affairs of capital-receiving countries. The practice of fomenting revolutions, using private armies, launching filibustering expeditions, which has been by no means unknown in the past, would surely become much more common were powerful alien capital interests left to fend for themselves in investment regions. The consequence in weak countries might easily be an irresponsible, even piratical, rule by foreign exploiters, more repugnant to a sense of freedom and justice than even the present practice of diplomatic interposition by national governments.¹

¹The British North Borneo Company started, for example, in a concession obtained quite independently by certain traders from native chieftains. The concession granted wide governmental, as well as commercial, powers to the white men, and there is no doubt that they could have established their rule, as did the East India Company in earlier times. When the Borneo Company applied for an imperial charter from the British government, Gladstone defended its granting, and recalled that the government had no power to say to the Company, "You shall not exercise the rights obtained by your concession." Rather, the government had simply to

War and the Private Investor

If one is seeking to move in the direction of the successful adjustment of conflicts connected with international private investment, mere anti-imperialism, whether in the form of demands for the prohibition of capital export or demands that investors should be left to take their own chances of unfair treatment abroad, is a false road. Many well-meaning people have assumed uncritically, often without giving conscious consideration to the issues involved, that world betterment might be sought along this line. Were it not for that fact, it would not have been necessary to devote so much space to such a hopelessly misdirected policy. Mere anti-imperialism is, indeed, essentially a protest rather than a policy.

Another form of anti-imperialist effort is sometimes directed to the end that official registration with some department of the national government should be required for concessions obtained or investments made by citizens abroad.¹ This, too, is a mistaken policy, if its authors hope to accomplish more thereby than the exposure of a certain amount of information. It would tend to emphasize and perpetuate the fundamentally unworkable principle of national responsibility for and supervision over the investments of

decide whether it was preferable that the Company exercise those rights without any responsibility to the country, without any control, or that it exercise them under certain conditions, permitting the government to step in at any moment to prevent abuses. (Carton de Wiart, *Les grandes compagnies coloniales anglaises du 19^e siècle* (Paris, 1899), pp. 26-7.)

Similarly, great private investors are frequently in a position to exert more force than weak countries in which they operate. Consider the fleets and the economic resources of some of the large fruit companies and the oil companies. Is it better to have them take over their own protection than to have that function in the hands of governmental authorities who at least feel some responsibility to justify their actions under national and international law?

¹For example, a pamphlet issued by a liberal organization in the United States, "Program of the People's Lobby for 1929," asked, among other measures relating to foreign relations, "2, A Public Record of Concessions Americans Have Obtained Abroad,—To End Armed Intervention!" The *New Republic* has advocated, but only "as a beginning to an understanding of the situation" that the details of all foreign loans should be publicly recorded with the State Department and the Senate Committee on Foreign Relations. (Editorial of June 6, 1928.) Another liberal organ said in its issue of April 18, 1934: "*The Nation* believes that foreign loans, indeed all credit, should be under government control, but it should be exercised through administrative action, not legislative fiat. The desirable agency would be an administrative board capable of studying each case on its merits. . . ."

Towards a Policy

citizens abroad. The official connections between national governments and private foreign investments need to be diminished rather than increased. This anticipates the argument of the next section, however, which discusses the practical possibilities of approaching the adjustment of international investment conflicts through national supervision.

NATIONAL SUPERVISION OF INVESTMENTS ABROAD

If it is neither possible nor desirable to call back the capital that has already migrated between nations or to prevent future capital migrations in the modern world, and if it is equally impossible and undesirable to secure the general adoption of a policy which would leave the investor to his own devices when he invests abroad, then our search for the most workable social technique to minimize international investment friction narrows down to a discussion of methods of organizing and supervising investment relationships. Capital will move. International investment contacts will exist and will occasion conflicts. An efficient process of adjustment for these conflicts must somehow be established. The process must be continuous, it must involve supervision and regulation of investment contacts, not merely settlement of disputes. In this section we are to explore the practical possibilities of methods of adjustment based on national supervision of citizens' investments abroad.

What methods of national supervision have been tried, or suggested? How successful have they been? What promise do they offer for future usefulness in the adjustment of investment conflicts? We shall examine three types of national supervision over private investments, all based upon the common working assumption that investment abroad is to be treated as a national interest: 1) National backing of competitive individualism; 2) Attempts to divide up fields of private investment operation abroad by agreements made between national governments or under their supervision— a) on a territorial basis ("sphere of interest" or colonial policy); b) on a basis of participation in joint enterprise

War and the Private Investor

(consortium policy); 3) More or less complete "etatism," meaning concentration of all external economic relationships under the direct control of the national state.

The national backing of competitive individualism in the international investment field is a practice which deserves little consideration here. This whole volume is, at most points, a commentary upon its stupidity and its dangers. It is characterized by scrambles for concessions and for other economic and political privileges, by rivalries which are at once rivalries of business firms and of governments. It is a policy which takes account only of what (correctly or mistakenly) is held to be "national advantage." It recognizes few or vague limitations on the pursuit of that advantage, regards private investments abroad as national interests, and uses them as tools of diplomatic policy. This practice of unrestrained economic nationalism has led, and is always bound to lead, to dangerous international investment friction. As a solution of the problem before us we must reject it out of hand.

Indeed, practical statesmen have long realized the dangers inherent in such a system, and it is in part due to their efforts to avert these dangers that we owe the development of the two devices now to be considered in connection with the second type of national supervision. It is probably a valid generalization that few modern statesmen have actually desired war, despite the fact that the compulsion of circumstances and blindness to the ultimate consequences of immediately desirable policies have often led them into paths which could have no other issue. Many of them have labored sincerely to maintain peace, and, specifically, have sought ways within the framework of national diplomatic protection to mitigate the conflicts associated with international private investment, especially where these threatened to bring about a break between major powers. They have particularly endeavored to mark out, and agree upon, boundaries to the respective politico-economic interests of national groups in conflict, with the hope of substituting mutually acknowledged

Towards a Policy

rights for unrestrained rivalry. In the first of the two devices employed for this purpose the agreed limits have been territorial. This is the "sphere of interest," "sphere of influence," or colonial method.¹ The second device has depended upon a demarcation of national interest in terms of agreed shares in a joint undertaking and may be called the consortium policy.

The policy of territorial demarcation has been frequently applied over the last half century in such countries as Persia, China, and throughout most of Africa as a means of averting dangerous clashes between the politico-economic ambitions of rival powers, as well as for the purpose of obtaining monopolistic privileges. Thus, the Anglo-Russian Agreement of 1907 divided Persia into three sections, the northernmost of which was to be regarded as the peculiar sphere of Russian enterprise, the southernmost as the preserve of the English, and the middle section as open to both. This was an attempt of diplomacy to end the years of bitter strife between the governments and the nationals of the two powers in Persia. English and German bankers, under the supervision of their governments, agreed in 1898 that the former would concentrate their railroad projects and other interests in China in the Yangtze valley, while the latter would be supreme in Shantung. The object was to avoid economic and political competition and conflict. The French, Japanese, and Russians marked out their spheres of special interest in southern and northern China, and these were more or less definitely recognized by the other powers.² The list of territorial demarcations in Africa after 1880 is a long one, and most of the African spheres of influence developed into definitive colonial conquests.

Now it must be admitted that agreement among the powers as to the areas in which they shall encourage the investments

¹The exactly appropriate term is different from case to case. Each term given refers to a form of territorial demarcation of national interests, which is the principle under discussion.

²See W. W. Willoughby, *Foreign Rights and Interests in China* (Baltimore, 1927), I, Ch. VI on "Spheres of Interest" for abundant illustrations of the process.

War and the Private Investor

and other interests of their nationals is preferable to war between them on such questions, and that is the form in which the issue sometimes confronted the statesmen of the last generation. The sphere of influence policy does bring order and settlement of a kind into the chaos created by anarchic pursuit of national interest. Save as an expedient to avoid something worse, however, it has little to recommend it for our consideration as a promising method of adjusting investment conflicts. In the first place, while assuring a certain degree of orderly division of the development field between the contracting powers, it threatens other powers with exclusion, not only from the glories and supposed economic advantages of imperial expansion, but even from opportunities for their commerce. The fear of this exclusion has been one of the main stimulants to the scramble for territorial possessions and spheres of influence which, pursued by means of economic and political penetration as well as by other means, has been perhaps the main source of serious investment conflicts between capital-exporting countries in the past. In the second place, the wishes and the interests of peoples in the less developed regions have ordinarily entered very slightly into the decisive calculations of a sphere of interest policy or a colonial policy. While the military impotence of the non-industrialized countries has made it impossible for them to raise very great disturbances and has thus rendered the potential conflicts between capital-importing and capital-exporting countries relatively less significant as causes of war, there are signs that this situation is already passing.¹ Our conclusion must be that both from the standpoint of past performance and future prospects the device of marking out national spheres for economic activity abroad cannot be regarded as a satisfactory long-run policy for minimizing international investment friction. Though its adoption as an expedient of the moment may have been justified at times in order to avoid worse alternatives, its ultimate effects are to multiply and intensify conflicts.

¹See Chapters 13 and 14.

Towards a Policy

We turn now to the consortium policy—likewise a method of marking out agreed spheres for national investment interests abroad, but on a non-territorial basis. A British banker of wide international experience, writing with particular reference to the Chinese consortiums, has aptly characterized this device as a method of financing through the medium of “representative national groups working in concert for a common end under the supervision of their governments.”¹ The consortium policy has at various times been hailed by intelligent and informed people as pointing the way to better international financial relations and a higher standard of international politics. Hence, it has a special claim to our careful attention and will receive rather detailed consideration.

The term “internationalization” has often been used in connection with the consortium device, as in the phrase, “the internationalization of the Bagdad Railway,” or “the internationalization of the Balkan railways.” This fact doubtless tends of itself to win the favorable reaction of those who look to international organization and international coöperation as the roads to world peace. The terminology so employed is, moreover, strictly correct. The consortium device is a method of internationalization in the literal sense of the word. Its procedure is *inter-national*, for it is based on negotiations between national units—governments and their financial protégés, “representative national groups.” It is *inter-national*, for the units participating in such consortiums as are here in question are always national groups, accredited and supervised by their respective governments. Nevertheless, the term “internationalization” in connection with the consortium policy may easily prove misleading unless care is taken to distinguish this particular type of “internationalization” from quite different policies sometimes called by the same name.

It is important to make this distinction because it must be

¹Sir Charles Addis, Manager in London of the Hongkong and Shanghai Banking Corporation, in the *Far Eastern Review*, March, 1920.

War and the Private Investor

stated that the type of "internationalization" of investments represented by the consortium device has been a failure wherever tried and is not likely to give good results in the future. It is based on a faulty principle which tends to vitiate certain good features of the method and to intensify rather than adjust investment conflicts. "Internationalization" built upon definitely *national* groups, each group bound to work for particular national interests, political as well as economic, will be found to be a wrong road rather than a right road to successful adjustment of foreign investment conflicts. Let us consider certain practical experiences with the consortium method.

We have seen that in Morocco before the World War the statesmen of France and Germany attempted to smooth over the political and economic clash between their two countries by undertaking to "associate their nationals" in joint economic enterprises. This was the policy embodied in the accord of February 8, 1909. The result was not at all to remove private investments in Morocco from the list of Franco-German difficulties, but rather to involve them more decidedly than ever in international contention and bitterness. The French understood the recognition of French political supremacy in Morocco to be the heart of the Accord of 1909, while the Germans centered their attention on the pledge that attempts would be made to internationalize economic enterprise. Thus there was conflict from the beginning. One by one all the specific projects undertaken by French and German diplomats to "associate their nationals" in joint economic enterprises came to naught, and these successive failures added greatly to the political tension which produced the Agadir crisis of 1911.¹

The first company created under the patronage of the French and German governments as the type of the new economic collaboration was the Société Marocaine des Travaux Publics. Its capital was held mainly by French and German nationals, but also in small amounts by citizens of England, Austria, Spain, Italy, Belgium,

¹See Chapter 7; André Tardieu, *Le Mystère d'Agadir* (Paris, 1912).

Towards a Policy

Sweden, and Portugal.¹ This public works company was to have constructed lighthouses, but that project met with the opposition of the English legation, which considered the English participation too small. It was to have installed tramway lines, electric lights, port improvements, and a waterworks in Tangier, but endless bickering over the shares in these enterprises to be accorded to France, to Germany, and to other countries blocked all operations. The business men involved in the affair could have reached agreement; it was the political preoccupations of the governments that made the least activity impossible. The merchants and industrialists "were not left in entire freedom to discuss the terms of their coöperation," said the French minister of foreign affairs in explaining the failure of the public works company to construct anything at all.²

Railroads, too, were to have been built by Franco-German joint enterprise. Here again negotiations dragged on and finally broke down, due to the dominance of uncompromisable political elements in the supposedly "economic" discussions. England objected that its interests were not sufficiently represented. The French cabinet could not view with equanimity the proposal of Foreign Minister Kiderlen, from the German side, that the operating personnel of the lines to be constructed should be of German and French nationality in the same proportion as the capital of the railway company. As M. Caillaux put it, "I shall not tolerate a German station master in Morocco."³

Likewise, in connection with the division of mining privileges in Morocco, the French and German diplomats were unable to "associate their nationals" upon terms at once acceptable to the business men and politically acceptable to the governments. In this case, contrary to the experience in most other cases of the sort, it was the business men who prevented agreement. But the stubbornness of the Mannesmann brothers, as we have seen in Chapter 7, rested not upon ordinary business considerations alone but upon political ideas of the type represented by the Pan-German League.

It may be said that conditions in Morocco were peculiarly unfavorable, and that the non-success of Franco-German

¹Tardieu, *op. cit.*, pp. 59-74.

²Tardieu, *op. cit.*, p. 68. "This shows how difficult it is to mix politics with economic enterprises without compromising these enterprises themselves," comments Tardieu. A French diplomat closely connected with Moroccan affairs of the period emphatically assured me in an interview that it was not the business men and financiers who kept the Accord of 1909 from working.

³Joseph Caillaux, *Agadir, Ma Politique Extérieure* (Paris, 1919), p. 128, also pp. 53-4 and 125 ff.

War and the Private Investor

economic collaboration there tells little about the merits of internationalization by the consortium method as a means of lessening investment conflicts. To be sure, the political circumstances in the Morocco case made the success of the policy almost impossible from the beginning, but *that is just the point*. Substantially similar political circumstances are likely to exist wherever the consortium policy is invoked, and the policy itself is one calculated to emphasize and intensify the political discords already existing, by solidifying national interests around particular economic projects, and by extending the stiffening influence of patriotic politics to the economic realm, where in ordinary circumstances compromise and bargain are relatively easy. It is fair to point out, furthermore, that at its inception the consortium policy was very hopefully regarded in its application to Morocco. Hailed as a means of supplanting conflicts by peaceful economic collaboration, the Accord of 1909 in actual practice contributed not a little to augmenting the political dangers of economic operations in Morocco. Those who believed that so-called economic disputes could be averted by setting up business groups under national political supervision and asking them to work together, proposed an unworkable plan based on a mistaken conception of international investment conflicts.

Other attempts to apply the consortium method of "internationalization" can be briefly mentioned. About the same time as the Moroccan events just discussed, and closely connected with them, official attempts were made to join French and German private interests in equatorial Africa for the joint exploitation of forest concessions. The proposed Congo consortium was directly related to the attempts of certain French concessionaires, with influential assistance, to collect indemnities from the French government for alleged infringement of their monopolistic rights by English and German traders. We have seen in an account of the N'Goko Sangha affair¹ that the project fell through, with unfortunate effects

¹Chapter 8.

Towards a Policy

upon Franco-German diplomatic relations. The Congo-Cameroon railway project, the third attempt at economic collaboration by France and Germany in African territories, was undertaken when the failure of the Congo consortium became evident. It was to ease international relations by showing that France was not opposed to all coöperation with Germany. It foundered on nationalistic jealousies and the patriotic outcries of opposition parties, leaving Franco-German relations much worse than before the consortium ideas had been launched.¹ The Bagdad Railway was repeatedly the subject of extended negotiations looking to its internationalization as a means of removing the political difficulties which at once hampered the progress of the road and endangered European relations, but these schemes finally had to be abandoned. The upshot of two decades of political antagonism and painful negotiations was a series of agreements signed in 1914, just before the outbreak of the war, which these very disputes had done so much to promote. The railway question was met at last, not by further application of the consortium device, but by another means of dividing up:—the creation of spheres of economic influence.²

French financiers were admitted to participation in the Bagdad Railway by agreement between the Deutsche Bank and the Ottoman Bank in 1899, and the effect was temporarily to remove French diplomatic opposition at Constantinople. But the continuous attacks of chauvinists in both countries—with their consequent effects on governmental policies—made this financial arrangement unworkable and eventually untenable. The Deutsche Bank was not at all averse to foreign participation in the huge enterprise, for

¹Tardieu, *op. cit.*, pp. 350–59; Caillaux, *op. cit.*, pp. 74 ff.; Oscar Freiherr von der Lancken Wakenitz, *Meine dreissig Dienstjahre, Potsdam-Paris-Brussel* (Berlin, 1931), pp. 92 ff. Von Lancken testifies to the irritation of German statesmen over France's repeated "backing out" of consortium projects. "First N'Goko Sangha, now Congo Railway," Kiderlen is reported to have argued—"therefore it is necessary for us to bring our fist down on the table." That was done at Agadir.

²Asiatic Turkey was marked out into national preserves by agreements among France, Great Britain, Russia, Italy, and Turkey. See E. M. Earle, *Turkey, the Great Powers, and the Bagdad Railway* (New York, 1924), Ch. X, 239 ff; Bernadotte E. Schmitt, *The Coming of the War* (New York, 1930), I, 81, and references there cited; *Die Grosse Politik*, Chapters 284–287.

War and the Private Investor

one of its most arduous tasks was the provision of adequate capital, but in 1911 we find it nevertheless proposing a plan whereby the Deutsche Bank would buy back the Bagdad stock held by the French, thus doing away with a circumstance which "brings continued attacks on the Ottoman Bank from French chauvinists and similar attacks on us from the Pan-Germans."¹ The German financiers wanted to be free of a partner "which is prevented by its country's policy from fulfilling the engagements that fall to its share."² The general Bagdad Railway settlements of 1914 did include the repurchase of the French shares by the Deutsche Bank.

In 1903 the financiers of the nations concerned were eager to arrive at some satisfactory plan for internationalizing the Bagdad Railway, and there is no doubt that had they been left to themselves a tripartite arrangement for dividing the ownership and the provision of capital between German, French, and English groups would have been the result. The negotiations met an impassable barrier in England, however, despite the fact that the British government as well as British financiers were convinced of the political and economic advantages of participation. Simply "blind antagonism toward Germany,"³ based on the rise of Germany's commercial and naval power and on irritations resulting from events a few years earlier in Venezuela and South Africa, kept public opinion from seeing the wisdom of not abandoning the Bagdad enterprise to the exclusive control of German and French capitalists. This antagonism was stirred to fever heat by an active anti-German agitation in the English press, which the Kaiser's government and at least one London banker thought was engineered by Russia (to defeat a project which would strengthen Turkey).⁴ The British government dared not fly in the face of public opinion and reluctantly took a stand against the participation of its capitalists.⁵

Still other attempts were made between this failure and 1914 to

¹*Die Grosse Politik*, No. 11500, memorandum dated May 18, 1911, from the Deutsche Bank to the German foreign office.

²*Ibid.*, No. 11503, July 13, 1911. The allusion is to the French failure to undertake the placement of a portion of the Bagdad Railway bonds in France, due to official opposition.

³Earle, *op. cit.*, pp. 202, 92-3.

⁴*Die Grosse Politik*, No. 5262, April 26, 1903, quoting a letter from C. E. Dawkins, London associate of Pierpont Morgan and former financial secretary for India, to Arthur von Gwinner of the Deutsche Bank, in which the former expresses sorrow at the failure of the negotiations and lays the blame entirely at the door of press agitation and a public antagonism against Germany not shared by the British government or English financiers.

⁵*British Documents*, II, No. 216, April 14, 1903; also Nos. 221, 224, etc.

Towards a Policy

bring about a settlement of Bagdad Railway difficulties on the consortium principle, but time after time the insistence of governments on political compensations defeated the agreements of financiers. In 1907, for example, the Kaiser proposed that England's fears regarding the penetration of other powers toward the Persian Gulf, the door to India, should be met by making the last section of the railway a joint enterprise, with the end station in British hands. This proposal was received with interest on the English side, but Sir Edward Grey suggested that France and Russia should share in the arrangement. Germany feared to be drawn into a minority position over against the solid phalanx of the newly formed Triple Entente, and negotiations broke down.¹ In 1908, at the request of the business men, the governments of England and Germany decided to stand aside temporarily to see what results might be reached by leaving matters to the financiers alone (chiefly von Gwinner and Sir Ernest Cassel). The shadow of national interest and chauvinistic politics hovered near in the background, however. Thus, the German government informed its ambassador in London that even if the financiers did reach an agreement it would be impossible to approve its terms unless it contained something which could be offered to German public opinion as a *quid pro quo* for English participation in the Bagdad enterprise. Public opinion had to be satisfied that the advantage was not all on the side of England.²

There were attempts to internationalize the financing of railways in the Balkans, but here, too, balance of power diplomacy called the tune, and the laying of a mile of track was disputed in a dozen foreign offices.³ Detailed examination of these episodes would merely confirm the conclusions indicated by previous examples. The first and second Chinese consortiums naturally come to mind when one thinks of international consortiums. They were concerned wholly with government loans, which fall outside the scope of this study, but if there were any indication that detailed examination

¹*British Documents*, VI, No. 65 (Nov. 16, 1907) and the series following; Karl Helfferich, *Georg von Siemens* (Berlin, 2d edn., 1923), III, 143-4; von Schoen, *Erlebtes*, pp. 57-8, Earle, *op. cit.*, p. 198; Haldane, *Before the War*, pp. 48-51; Morley, *Recollections*, p. 238.

²*Die Grosse Politik*, Nos. 9976, 9986, and 9990.

³Herbert Feis, *Europe the World's Banker: 1870-1914* (New Haven, 1930), pp. 293 ff.

War and the Private Investor

might lead to different conclusions respecting the merits of the consortium device than we have already reached from other instances it would be worth while to look at them more closely. There are no such indications. The first, or Six Power, consortium began as a tripartite railway loan agreement participated in by British, French, and German bankers, but soon room had to be made for interests from the United States (at the special request of President Taft, in a public telegram to the Emperor of China), and then Japan and Russia had to be admitted.¹ The latter had no important capital funds seeking export, but they had political interests in China and insisted upon a voice in any joint transactions. The second, or Four Power, consortium of 1920 encountered great difficulties on account of Japan's insistence upon special interests in Manchuria and Mongolia.² In practice, the consortium method in China, as elsewhere, was vitiated from the start by its tendency to intensify the association of investment operations with uncompromisable national political interests, and what was planned as "working in concert for common ends" soon gave place to a jockeying for national advantage. This was not the only reason, but one of the most important, for the failure of the first consortium to accomplish much and the failure of the second to accomplish anything at all.

These are the main instances of outright application of the consortium principle—representative national groups in joint enterprise under the supervision of their governments—in the field of international private investment. Their testimony is uniform. The attempt to solve the political problems connected with world-wide investments by "internationalization" under the eyes of national governments has not decreased the political dangers connected with such investments. Rather, it has drawn the lines of national interest more sharply, and it has intensified politico-economic conflict. "Internationalization" of this sort, if judged by its effects

¹*Foreign Relations of the United States*, 1909, pp. 144 ff.; 1912, pp. 87 ff.

²W. W. Willoughby, *op. cit.*, II, 1025 ff.

Towards a Policy

in conflict situations, is a failure. Nor has its failure been a mere accident. "Internationalization" of this kind connotes more nationalization, not less. It means a greater rather than a less degree of national political control over investments abroad, a still closer connection between private enterprise and nationalistic world politics. Questions of national prestige become more surely involved. Difficulties which could easily be surmounted by compromise between private business men prove to be sticking points when these same business men operate as the agents of politically conscious national governments under the eyes of chauvinistic presses. Workable internationalization in the investment field must not be founded on further nationalization; it must not solidify economic and political interests into the interests of opposing national groups.

There is one more possible form of national supervision over international investment relationships which merits attention. Competitive individualism with national backing we have rejected. Two devices for dividing up the investment field abroad by agreement between national units have likewise been found wanting. But suppose that the world tendencies of the moment toward increasing control over international trade and finance by governments of national states should be carried to their logical conclusion and should result in permanent state management of all external economic relations of every independent country—a world of national economic planning. In this case private investments abroad would be replaced by outright state-owned, or at least state-controlled, investments abroad. Would such a development provide a basis for the peaceful solution of investment conflicts? Or would it tend to make them still more dangerous sources of political friction?

The issue is not merely an academic one. "Etatism" ("state-ism") as it has been called, is a tendency common to many diverse politico-economic movements now powerful in the world. Fascism, national socialism, socialism, communism, technocracy, national economic planning, state

War and the Private Investor

capitalism—whatever the name, and no matter how they differ in some respects, are alike in one thing. They require the unification of political and economic control under one authority. Their widespread adoption *on a purely national basis* would tend to create a world order in which a congeries of national economic units would confront each other, with the external economic relations of each unit concentrated in the hands of its government, much as the external economic relations of Soviet Russia today and (increasingly) of National Socialist Germany are in the hands of their governments.

Do the investigations of the present study throw any light on the probable result of such a development from the standpoint of international political friction—peace or war? They do, and the result would almost certainly be to foster war,¹ unless at the same time a world politico-economic organization were achieved which would be sufficiently supported by the loyalties of the peoples of the world so that it could exercise authority over the relations of the units to each other. Such a world-wide planning authority forms no part of the philosophies of fascism and national socialism, which emphasize national separateness rather than world unification. It would fit in with the doctrines of socialism and communism, however, for these emphasize the world

¹Widespread etatism on the national basis would tend to place the control over foreign investment interests of the capital-exporting countries directly in the hands of the same authorities who also control the armed forces and direct the political strategy of the state. It would tend to establish in the people of each nation the sense of social ownership of its foreign economic interests, so that they would regard economic undertakings abroad not as "investments of our capitalists," but as vital parts of "our" economic plan, "our" direct interests. At the same time, the foreign interests of the separate politico-economic states would overlap and clash in various parts of the world—say in the raw material producing countries. Each state would bargain with the others as it saw fit, without accepting any compulsory obligation to abandon its particular interests at the behest of the world community. Each politico-economic unit would be sovereign; in other words, there would be economic contacts, but no government (anarchy) in their relations. It has been argued that "National governments based on the economic interest of the majority of their several peoples, and controlling internal economic life in pursuit of that interest, would find it relatively easy to agree and trade with one another." (George Soule, "A New Internationalism," *Harper's Magazine*, February, 1934, pp. 357-66.) If the analysis of this book has been correct that conclusion must be doubted.

Towards a Policy

solidarity of the working class. That is why a world of socialist or communist collectivities would more likely be a warless world than a world of fascist or national socialist collectivities. Even socialist or communist collectivities might have great difficulty in practice, however, in overcoming the national consciousness of the different peoples. Social ownership of great international trusts rather than social ownership of separate national economies would be much more conducive to peace from this standpoint. Socialists should bear constantly in mind that the displacement of capitalist profit-makers by collective ownership will not automatically solve the war problem. That depends upon world politico-economic organization supported by world loyalties, whether collective ownership or individual ownership is the rule.

To be sure, complete etatism would eliminate *private* investments, and in a purely formal sense would solve the problem of political friction connected with international private investment. But to substitute collective national ownership of investments abroad for the present combination of private ownership and national protection would not remove the fundamental sources of investment conflict investigated in Chapters 14 and 15, nor would it automatically improve on existing institutions of adjustment. Of course, it might be argued that to remove the pressure of private capitalists upon government would make it easier to find peaceful solutions for investment conflicts, and that might be granted; but as an offset one would have to reckon with a direct fusion of the former economic interests of the capitalists with the political and strategic interests of the state. When a conflict arose in 1929 between the Chinese and the Russians over the Chinese Eastern Railway—a line through Manchuria which the Soviets had inherited from the Tsarist regime—the socialist Soviet Union sprang to the defense of the railway rights with all the alacrity that a capitalist government might have shown.¹ Had the railway been owned by American

¹See the account in Arnold J. Toynbee, *Survey of International Affairs, 1929* (Oxford, 1930), pp. 344 ff.

War and the Private Investor

capitalists there would have been vigorous pressure upon the government of the United States for its protection, but also counter-pressure from labor, pacifist, and liberal groups demanding that no American lives be risked to "pull the capitalists' chestnuts out of the fire." The Chinese Eastern, however, was a collective interest of the socialist state, and an attack upon it appeared as a direct attack upon the interests of every citizen. The sense of social ownership in such situations is a powerful psychological factor. Much greater danger of international friction than now results from the activities of private capitalist investors might result from the concentration of international investment interests under the immediate control of armed national states through collectivization. These are points which economic planners of every sort should think through. Herein lies the menace of etatism and purely national planning.¹

In other words, the general analysis of the first part of this chapter applies in all severity to international economic relationships of a fairly permanent, investment-like character, whether ownership vests in private citizens or in politico-economic collectivities. All such contacts will occasion conflicts. Lacking adequate, continuously functioning institutions of adjustment these conflicts will turn into political frictions. Adequate institutions of adjustment must rest on political organization and political loyalties as wide in extent as the area covered by the contacts and conflicts

¹Sir Arthur Salter has said that, "the close association of the power of the government with the competitive economic struggle seems to me to involve danger in innumerable ways; and the closer the association the greater the danger. . . . It is a primitive and dangerous form of commerce when the trader goes with his goods in one hand and a pistol in the other. . . . The more the activities of the world come into touch with each other not by contact at national frontiers but by cutting across them, the broader the foundation of peace." (Williamstown Institute of Politics, typewritten records, 1925.)

"It is better," he says further in *Foreign Affairs* (New York, October, 1932, p. 18), "that men should think of themselves more in terms of their occupations, professions and businesses, and meet the nationals of other countries on that basis; and be less conscious in all their activities of their differences as Englishmen, Germans, or Frenchmen. The identification of all the interests and activities of a country with its political sovereignty, and the political authority which controls its armed forces, is the greatest of all the ultimate dangers."

Towards a Policy

with which it is necessary to deal. Etatism offers no exception to the general principle that a workable policy for preventing international investment friction cannot be based on national supervision of foreign investment contacts. Statesmen who proceed on the assumption that economic planning, whether inspired by socialist, communist, fascist, or "new deal" motives, can be carried on nationally without the development of immensely more effective international institutions than we have at present are sowing dragons' teeth.

DENATIONALIZATION AND MONDIAL SUPERVISION

So far our appraisals of a variety of policies by which attempts might be made to deal with the problem of international investment friction have been entirely negative. Mere anti-imperialism was first rejected. National supervision in various forms, from national backing of competitive individualism, through dividing-up devices based either on territorial demarcation or joint participation in consortiums, to complete etatism, is unsuitable. Can a positive policy, at once reasonably practicable and intelligently oriented, be framed on the basis of the analysis of this chapter?

Any statesman-like attack on the problem of international investment friction must begin with recognition of the fact that economic contacts similar to those we nowadays call international investments will continue to be important, linking the various peoples and regions of the earth in relationships of mutual interdependence. Where there is interdependence the actions of one party may harm (as well as help) another, and occasions of conflict are bound to arise. Conflicts will always be associated with international investment relationships, whether capital is controlled by private persons and firms or by collectivities. The task of the statesman, then, is to develop institutions of adjustment capable of preventing these inevitable conflicts from becoming sources of great injustice or from issuing in acute political friction likely to disturb the public peace. Such institutions of adjustment must be based upon an authority having a jurisdic-

War and the Private Investor

tion and commanding loyalties as wide as the contacts to be supervised and the conflicts to be settled, which means, practically, that the basis must be world-wide. Furthermore, these institutions must not be mere devices for judicial settlement and arbitration. Of course, there must be provision for handling conflicts that have reached the stage of dispute, but really effective institutions of adjustment should begin further back. Such processes as the achievement of recognized agreement on general rules and taking action on specific problems before they lead to overt disputes—the processes of legislation and administration as well as adjudication—are vital to truly effective social adjustment. Some sort of a working balance must be maintained between the conflicting interests and attitudes of many individuals and groups, and since the balance cannot be a permanent or rigid one its readjustment is a continuous task—the function of political agencies. In short, the solution of the problem of international investment friction demands the development of continuously functioning political agencies on a world basis to supervise and regulate boundary-crossing investment contacts—a long step towards world government.

This sets the goal, but admittedly the goal cannot be attained in a day, nor in a decade—not perfectly, it is safe to say, in many decades.¹ In the meantime, what can be offered as a sailing chart for puzzled statesmen and citizens who must make immediate, practical decisions while dealing with concrete international investment situations, but who wish to substitute consistent, rational, and directed policy for aimless drift? Two guiding principles are here suggested as bea-

¹Whether it can be attained at all, in even approximately satisfactory fashion, is, of course, a very real question. The only comment one can make when this question is raised is that if the world is prevented by irreconcilable nationalisms or other factors from readapting its political institutions to modern economic conditions, then confusion and conflict, wars, devastation, and economic and social chaos must rule for generations. It is a case of either-or: either adaptation to the requirements imposed by the results of modern civilization, among which are world-wide economic contacts, or a period of destruction through which modern civilization and its requirements can be disposed of. This book takes the optimistic view that man is capable of rational adaptation.

Towards a Policy

cons along the way, or, to change the metaphor, as touchstones by which details of policy and all specific proposals should be tested. These are *denationalization* and *mondial supervision*. The first is negative, the second positive; each is the complement of the other. The two together provide the key to constructive policy in dealing with the problem of international investment friction.

By *denationalization* it is meant that in every possible way functions connected with the promotion and protection of international private investment should be taken out of the hands of national governments. Our theoretical analysis shows that national governmental units, being smaller than the area of international investment contact and conflict, are not suitable basic areas for institutions of adjustment which must deal with international investment problems. The failure of national diplomatic protection in practical operation points to this same conclusion. If a long-run, workable solution of the problems represented by international investment friction is desired, then national states should have no more to do with the investments of their citizens in other states than the State of New York has to do with the investments of its citizens in Nevada. It must gradually become a matter of no significance whether the individuals and corporations investing in a foreign country claim English, French, or Norwegian citizenship. The factor of national allegiance must be detached from migratory capital, and the first test which should be applied to any proposed measure of policy for dealing with international investment conflicts is this: does it tend to denationalize international investments?

Mondial supervision implies that the functions of investment promotion and protection should be lodged in various agencies representing the world community and having a world-wide jurisdiction. The special term "*mondial*"¹ is

¹The French noun *monde* means "world," and its adjective form is *mondial*. "World" can sometimes be used as an adjective in English, but one cannot say, "Supervision of investments should be 'world' (or 'world-al,' or 'world-ish') rather than national." As the future will probably continue the rapid increase of problems,

War and the Private Investor

adopted, despite the disadvantages of importing a strange word into the discussion, in order to make a very important distinction between two meanings of "international"—a distinction which ought to receive increased attention, and which may be made sharper by using an unambiguous word. Mondial will be used to mean international in the sense of "pertaining to the world as a whole," not international in the sense in which various consortiums have been international—that is, made up of national units. Mondial agencies are world-wide agencies with the national element filtered out; they are not made up of representatives of national states. They represent directly a world community composed of all sorts of boundary-crossing social and economic groupings: wheat growers, the shipping industry, industrial workers, professional groups, racial and linguistic groups, as well as nations. Some of the committees and commissions set up by the League of Nations are of this type, though the governing organs of the League itself are based on national states and must doubtless continue to be so for a considerable time in the future. Only through mondial agencies can the problem of international investment friction be effectively attacked, and the further development of such agencies is one of the tasks confronting world statesmanship.

Finally, it should be emphasized that the policy here proposed moves in the direction of more, not less, security and protection for legitimate international investment undertakings. The first reaction of most people whose thoughts are rooted in the traditional system of national diplomatic protection is that anyone who proposes the denationalization of international private investments and the abandonment

interests, and organizations of a "mondial" as distinct from a merely "international" character, this useful word ought to be generally adopted in English. The evolution of the language would thus reflect social evolution.

Later: Evidently others have felt a need for the usage recommended here, for "mondial" now has the sanction of no less an authority than the recent supplement to *A New English Dictionary on Historical Principles* (Oxford, 1933), which cites examples dating from 1918–20. According to the same authority, it was only one hundred fifty years ago that Bentham employed "international" for the first time in English and apologized for introducing a strange word.

Towards a Policy

of national diplomatic protection must be proposing to deprive investors of recourse against unjust treatment. That is not the case. So long as our social system recognizes international private investments and permits them they must be supervised and protected by the proper governmental authority. New mondial institutions for the guidance, encouragement, and protection of international investments must be developed, and in practice their development must be the means of making it possible to abandon the national agencies now discharging corresponding functions so inefficiently and with such baneful results. Private international investors have very little real protection now through national diplomatic support, despite all the bluster that often accompanies it. A better security and protection could be provided through continuous, regularized, and impartial administration by mondial authority, separate from the political ambitions and expediencies, the emotionality, and the fluctuating policies of particular national governments.

What specific measures might be suggested in line with the principles of denationalization and mondial supervision? That query provides the topic for the next, and final, chapter.

CHAPTER 19

Specific Suggestions

THE purpose of this final chapter is twofold. First, and foremost, it is designed to illustrate and clarify, by the elaboration of some specific measures of policy, the two guiding principles of denationalization and mondial supervision which have emerged from our search for the best method of dealing with the political problems connected with international private investments. From this point of view it is immaterial whether the details of the specific measures here proposed are well planned or not. The principle is the thing. Second, the suggestions about to be advanced may prove useful to citizens and statesmen by providing a tentative program based upon purpose and direction rather than upon drift. If they do nothing else, they may serve to center discussion about such a program. For this purpose, of course, the measures proposed must not be the immediately practicable products of today's expediency, and yet they must not be utopian. The object here is to recommend projects for which the realization seems possible in terms of decades, and on which work can be started today—a long-range plan for world statesmanship on the international investment problem.

A WORLD INVESTMENT COMMISSION

The functions which might be discharged by a world commission on permanent economic contacts between nations

Towards a Policy

are plentiful and important enough to justify the creation of such an agency. The World Investment Commission, if we may give it that name, should begin the development of that effective supervision by the world community which must gradually undermine national diplomatic protection and render denationalization of investments possible. It might do this in three ways. It should endeavor to establish and guarantee minimum standards of security and fair treatment to investors in countries not their own. It should endeavor to establish and guarantee minimum standards of protection for the capital-importing countries against harmful practices of foreign investors or harmful consequences of certain types of foreign capital investment. It should provide a constantly available means of conciliation and peaceful settlement for international investment disputes, available both to private parties and to governments. A fourth function might be added in connection with another suggestion to be advanced later:—the supervision of international corporations.

How should the World Investment Commission be composed? That is a question for practical statesmanship, but certain desiderata can be laid down. First of all, it should not consist of representatives of national governments, nor even of “representative national groups”—this in order to avoid the vitiating defects emphasized in our discussion of the consortium device. Nationality should no longer be the basis of institutions of adjustment for dealing with international investment relationships. In other words, the Commission should be *mondial*, not merely *international*. The best method of establishing such a commission and selecting its members would be through use of the machinery afforded by the Council and Assembly of the League of Nations and the International Labour Organization. Provision might be made for participation in this process by states not now members of the League. The Commission itself should include representatives of (1) investors, (2) borrowers and capital-

War and the Private Investor

importing regions,¹ (3) international society as a whole.² Both as a part of its membership under the third category and as a part of a permanent staff or secretariat the Commission should have available the continuous, full-time services of competent experts on the various phases of international investment problems—political and social as well as economic. Those eligible to appear before the Commission and to bring questions to its attention should be: (1) National governments, of course. It is to be hoped, however, that in practice it would prove unnecessary for national governments to sponsor the claims and interests of particular citizens before the Commission, for these could appear directly. Government representations ought, therefore, to be confined in practice to stating the official interests of the government or the interests of large bodies of unorganized citizens. (2) Private persons, corporations, and business firms, with respect to their operations in foreign countries. (3) The international corporations to be suggested later. (4) Voluntary associations of bondholders, oil operators, mine operators, debtors, etc. to register a collective complaint. In fact, all parties having a definite interest in international investment operations or claims to advance or defend should be able to stand on their own feet before the Commission without the necessity of persuading any national foreign office to sponsor their case. This is calculated to do away with some of the worst defects of national diplomatic protection.

How would the World Investment Commission operate? It should have the following powers and duties:

To register international loan agreements and concessions; to make their terms public; to regulate their terms in certain respects.

To collect continuous and accurate information respecting international investment operations and all their ramifications.

¹Where aliens make direct investments, as in the plantations of Central America, the residents of the region are not "borrowers" or "debtors" in the strict sense, though the capital investment may vitally affect their interests.

²Cf. Walter H. C. Laves on a proposal for an international body to control foreign investments, *American Economic Review Supplement*, March, 1932, pp. 175-6.

Towards a Policy

tions and effects—social and political as well as economic.

To call general conferences on a world or regional basis, or conferences of certain industries (e.g., concession holders, consumers, and states granting concessions in the oil industry). These conferences would consider problems raised by international capital migration, and out of them something akin to world investment legislation might emerge.

To coöperate with the Mandates Commission of the League of Nations, the International Labour Organization, commissions on codification of international law, and other international agencies whose work has a bearing on the setting of standards for protection of capital-importing regions against ruthless exploitation.

To examine and report on the financial condition of borrowing states¹ and private enterprises; to make observations on the political and social implications of specific capital transactions.

To call attention to any conditions likely to intensify international investment conflicts or to occasion political friction over investments and to make recommendations with respect thereto.

To endeavor to conciliate disputes, calling conferences of lenders and borrowers for this purpose, mediating, arbitrating, seeking to work out compromises, employing the services of disinterested experts to provide full social and economic information on the basis of which equitable adjustments might be sought.

To make a public report of its findings where a party to a dispute before the Commission refuses to come to an agreement which in the opinion of disinterested conciliators is just and reasonable.

To publicly advise, after hearings, against further provision of capital to a state or corporation which has failed to observe a contract obligation without just cause. This would presumably make the flotation of loans difficult anywhere in

¹The Commission would probably deal with state loans as well as with the private investments upon which the discussions of this volume have been focused.

War and the Private Investor

the world for such a state or corporation. Here is one of the "sanctions" which would enable the Commission to take over the function (now exercised by national diplomatic protection) of protecting investors abroad—that is, of guaranteeing minimum standards of fair treatment for the investment interests of aliens in all countries. If organized on a world-wide basis, this sanction would be sufficient in many cases to accomplish more in the way of protection than is now usually accomplished by diplomatic protection. At the same time, it would tend to remove investment protection as a pretext for national aggression and remedy other defects of the system of national diplomatic protection.

To refer legal questions to the Permanent Court of International Justice or to the World Commercial Court (suggested below) for an advisory opinion or final settlement.

To coöperate with regional organizations like the Pan-American Union in the establishment of regional sub-commissions for handling investment problems that affect mainly one part of the world.

A WORLD COMMERCIAL COURT

As a second measure calculated to promote denationalization and mondial supervision of international investments the creation of a World Commercial Court may be urged. Such a court might have regional branches and it might operate in conjunction with a system of voluntary commercial arbitration. Its essential feature would be provision for direct access by private parties to an impartial, international tribunal. "Direct access" means that individuals and business firms or corporations would be eligible to appear as litigants before the court without the sponsorship of their national governments. The desirability of direct, non-national, judicial recourse on legal disputes arising out of international investments is sufficiently obvious on the basis of arguments already advanced. Such a development, furthermore, is in line with recent tendencies in international law, and the favorable expressions on the subject which have

Towards a Policy

emanated from distinguished international jurists make the practical realization of projects such as that here proposed not improbable in the fairly near future.

Of course, at the present time, neither the Hague Court of Arbitration nor the Permanent Court of International Justice is directly accessible to private parties. While it is true that most of the disputes submitted to the Court of Arbitration have their origin in a conflict of private interests with a foreign state, the actual appearance in court is made by the national state of the private claimant. Before the Permanent Court of International Justice the question of access is determined by article 34 of its statutes: "Only States or Members of the League of Nations can be parties in cases before the Court." When the Permanent Court was created, proposals from Germany, Holland, and the Interparliamentary Union would have opened it to private parties as plaintiffs or defendants, but these were not accepted. Similar proposals advanced at the conference on international private law at The Hague in 1925 were likewise rejected. It was considered important to maintain the Permanent Court of International Justice on a very solid, traditional basis in order that states might be willing to accept the "Optional Clause." Such acceptance might have been impeded by the admission of private parties as litigants. But the committee of jurists which rejected proposals for access of private parties to the Permanent Court was not necessarily of the opinion that they should be excluded from all international jurisdictions, such as those of special courts.¹

Indeed, there are precedents for direct access by private parties to international justice, and some of these are adduced in Appendix B for the use of those who desire to pursue the legal aspects of the question further. As a practical aid to achieving such a reform the assembling of analogies and precedents which make the proposal appear less in the light

¹Report by MM. F. L. de la Barra and A. Mercier to the Institut de Droit International, *Annuaire*, 1927, II, 601 ff., especially pp. 608-9. The report deals with arbitral procedure, and the relevant portion here is Section III, "Accès des particuliers à la procédure judiciaire internationale."

War and the Private Investor

of a sharp break with tradition is an important part of realistic tactics. Appendix B also summarizes arguments by international jurists on the question of direct access.

INTERNATIONAL CORPORATIONS

The World Investment Commission and the World Commercial Court would tend to denationalize international investment relationships and to substitute mondial supervision for national diplomatic protection. This is in line with the general policy here advocated. A further great step in the same direction might be made if some method could be worked out for the non-national incorporation of economic enterprises which contemplate the establishment of relatively permanent interests in several different countries. This would be a greater departure from the existing international legal system than either of the measures already suggested, but it would offer a method *par excellence* for attaining denationalization and would greatly stimulate the development of mondial supervision. Incidentally, it would dispose of a problem which has lately arisen to baffle and confuse present-day legal theory: that is, What is the nationality of a corporation organized in one country, operating mainly in another, with stock held equally in several others? The answer here suggested is that such a corporation might voluntarily become an *international corporation*, without nationality, registered and regulated by a mondial authority, but with rights of operation in each country the same as those accorded to foreign corporations generally by that country.

This proposal would obviously involve the creation of an international corporation law, probably through an international treaty to be framed and adopted under the auspices of the League of Nations. The treaty would set up a registry office where international enterprises complying with certain conditions might be chartered as international corporations. Such corporations would have no nationality. They would have mondial or "League of Nations" citizenship instead of

Towards a Policy

German, French, or English citizenship. They would therefore not be entitled to call upon the government of any national state for diplomatic protection, nor would any national state have the right to make diplomatic representations to any other state on their behalf. This would be stated and agreed to in the treaty establishing the mondial corporation law. At the most, national states whose citizens were interested in an international corporation might enter a plea on their behalf to the mondial authority supervising and regulating these corporations.

There would obviously have to be a supervising and regulating authority, and it might possibly be the World Investment Commission suggested earlier. The conditions for registration of a business organization as an international corporation might include a requirement that no more than forty per cent of the capital stock be held in any one country, with corresponding distribution of voting rights. International corporations would, of course, have the standing of international legal entities with the right to sue and be sued in international courts. This would occasion no difficulty if the World Commercial Court were established. They might also sue and be sued in the courts of national states, perhaps with right of appeal to international jurisdictions in certain types of cases. In general, the international corporations would have the same rights, privileges, and duties in any national state adhering to the treaty as any other foreign corporations, or the corporations of the most favored nation. That is, an international corporation operating in Brazil would have the same standing there as a French, English, or American corporation, except that it would have renounced its right to the diplomatic protection of any particular nation and would have substituted responsibility to and right of protection from a mondial authority like the World Investment Commission. Precedents and analogies bearing on this proposal are included in Appendix B.

Let us consider further the advantages that might be expected from such a change in the political responsibility for

War and the Private Investor

international investments as might be represented by the establishment of international corporations. By incorporating internationally, business men interested in international economic developments of a *bona-fide* non-political intent would be able to dissociate their enterprises definitely from the suspicion of being national political tools. This would be an enormous advantage to them in operations requiring the coöperation and confidence of small countries, in regions of political tension, or in undertakings which necessitate the raising of capital in several different markets.¹ Managers of such enterprises would in many cases be glad to abandon their claims to national diplomatic protection, freeing themselves from the handicaps imposed by the political interests of their foreign office, and relying for protection upon the impartial supervision of the World Investment Commission. Small countries might require applicants for concessions and bidders on construction projects to incorporate internationally. This should be a much more effective device for insuring themselves against political penetration by larger powers through investment operations than they have yet been able to find. The interests of the world community would benefit through the relaxation of vexatious measures now in force in many small countries which are based upon the fear that political domination by outside nations may follow the importation of foreign capital. Furthermore, if international trade came to be conducted to a considerable extent by international corporations of the type here suggested many of the political repercussions of commercial competition as it is today might be avoided. To take a concrete example, com-

¹When Siemens and Halske, a German firm, undertook the construction of the Indo-European Telegraph in the late 1860's they founded an English corporation for the purpose. (Ludwig von Winterfeld, *Entwicklung und Tätigkeit der Firma Siemens und Halske in den Jahren 1847-1897* [Kiel, 1931], p. 41.)

Emil Rathenau founded the first financing corporation for the expansion of his electrical organization (the A.E.G., German General Electric) in Zurich, "correctly feeling that it would be safest to anchor the undertaking on the neutral soil of Switzerland, and also that coöperation with foreign financial powers would be facilitated thereby." (A. Riedler, *Emil Rathenau und das Werden der Grosswirtschaft* [Berlin, 1916], p. 172.)

Towards a Policy

petition for the South American market often assumes the form of national competition, as agitation inspired by commercial motives easily turns into anti-British, anti-Yankee, or anti-German agitation. Such agitation would lose its point if international corporations were the traders. Finally, the establishment of a form of international incorporation for business enterprises would tend to adjust legal forms to existing economic realities. National boundaries have already become too small in fact for many phases of modern industrial and commercial organization; international fusions, branch plants abroad, world-wide financial enterprises, are characteristic expressions of world economic interdependence. Fundamental factors like technological improvements in transportation and communication seem certain to press steadily in the direction of still closer world economic contacts and still further interdependence of world economic life. To insist that every enterprise has a determinate national character, no matter how widespread its ownership and its field of operation, is to maintain a legal fiction of which the confusing and vicious effects are destined to become more and more evident. The institution of international corporations under mondial authority would help to remedy the lack of correspondence between the legal and the economic conditions of modern international relations.

The difficulties and objections that will be encountered by any practical attempt to establish an international corporate law are, of course, immense. The basic opposition will rest upon the tremendous forces of traditionalism and nationalism, which will always resist rational efforts directed toward the political organization of the world on a basis related to its economic interdependence. These forces must simply be overcome if the world is to avoid catastrophe. Of the objections which might be raised against international incorporation on rational grounds, two will be briefly considered.

First, could satisfactory provision be made for the internal regulation of such corporations? Suppose that rival factions in the management dispute each other's powers, or that the

War and the Private Investor

voting rights of certain classes of stock are challenged. Such contingencies might be handled in one of two ways: either a code of law and procedure applicable to the internal affairs of international corporations might be adopted internationally, or their internal affairs might be subjected to the existing laws of some specified state. There would be no great objection to the latter alternative, so long as the *external* relations of the corporation with private persons and governments in other states are supervised by mondial authority and not by any national government. Practically, the second alternative might be easier to achieve, since the international legislative process is still in a very rudimentary stage of development.

Second, it might be objected that the plan for international corporations would make it possible for business combinations to form outside the regulatory jurisdiction of any existing authority, to set up monopolies, and to exploit the public without restraint. The answer to this is that such combinations can be formed today; the lack of any legal form for international incorporation is no effective restraint against actual combinations of economic power. It is a definite hindrance to the regulation of such combinations in the public interest, however. Perhaps the establishment of a mondial corporation law might be the beginning of a larger development toward the orderly control of world public utilities (shipping lines, radio, aviation, etc.) or even toward world collective ownership.

In conclusion, a word may be said about the possible combination of the international corporation device with another politico-economic form of organization that has recently proved useful in certain countries. The so-called "mixed enterprise," in which the provision of capital and the control of operations are divided between private parties and government, has been widely used in Europe for the conduct of such varied activities as electrical, housing, railway, gas, water, street railway, aviation, and garage undertakings. It offers interesting possibilities for application in the international

Towards a Policy

field. By this means, for example, several national governments interested in the development of international aviation lines may share in the ownership and control of an operating company, and private capital may also be admitted to participation. Actual instances of such arrangements have, in fact, already been seen.¹ The device has the advantage of providing unified administration for an international service, while satisfying the governments that their political interests will be safeguarded. It seems obvious that international incorporation would provide a fitting form of organization for international mixed enterprises and would offer definite political advantages, through placing such enterprises under a supervision representing the world community.²

A WORLD INVESTMENT BANK

As a means of filtering out the national interest in world capital movements and thereby promoting the dual process of denationalization and mondial supervision, a World Investment Bank might perform useful functions. Such a bank would sell its bonds to governments or to private investors and invest the funds so raised in long-term construction projects, such as railways in South America and China, airways over the world, canals, harbor works, international river improvements, and the like. It might lend to governments and to private or mixed enterprises incorporated internationally. International development projects of this general sort have been talked about on various occasions since the World War, usually in connection with the problem of German reparations, and some of the framers of the Young Plan who designed the Bank for International Settlements seem to have hoped that it might strike out in this field. The activities of the Bank for International Settlements have been con-

¹Cf. E. Minost, *Le fédéralisme économique et les sociétés à charte internationale; les coopérations interétatiques* (Paris, 1929). The Compagnie Internationale de Navigation Aérienne, described on pp. 91-94, offers the most interesting example.

²It might be possible thereby to avoid some of the worst defects pointed out in connection with the consortium device, for these defects would tend to be present in international mixed enterprises.

War and the Private Investor

financed to promoting central bank coöperation and to measures connected with monetary and exchange problems, however; its operations are mainly in the field of short-term finance. In addition to the Bank for International Settlements, therefore, and to such institutions as the International Agricultural Mortgage Credit Company, sponsored by the League of Nations for assistance to the farming countries of south-eastern Europe, there is room for another international institution which would concern itself with long-term investments.¹

A WORLD CONSULAR SERVICE

Among the legitimate and useful functions for discharge by public agencies are the facilitation of trade and investment through the provision of dependable economic information, the encouragement of contacts between persons who might deal with each other, and the protection of parties to business agreements against loss through fraud, violation of contract, and similar causes. These functions with respect to international investment operations now fall within the sphere of the diplomatic and consular representatives maintained by each national state within the territory of other states. Increasingly in recent decades diplomatic and consular officers have been expected to provide economic information, to encourage economic contacts, and to help protect the business interests of their countrymen. The dangers, from the standpoint of international politics, of having this latter function of protection left to agencies of separate national states we have already dealt with. The provision of international economic information and the promotion of international economic contacts by agents of national states also involve grave dangers of a similar type—more subtle, perhaps, but also more continuous in their operation and far-reaching in their ultimate effects.

¹This suggestion was advanced by Professor Jacob Viner at the Williamstown Institute of Politics in 1931. *Report of the Roundtables and General Conferences at the Eleventh Session*, Arthur Howland Buffinton, editor (Williamstown, Massachusetts, 1931), p. 193.

Towards a Policy

The very fact that international economic data are gathered and reported in *national* terms has a significance for world politics that can hardly be over-rated. Suppose that each of the forty-eight states making up the United States of America compiled its own data regarding the trade and investments of its citizens in each of the others. How long before the government and citizens of Illinois would be alarmed about their "unfavorable" balance of trade with Nebraska? Suppose the hard-working and patriotic consuls or commercial attachés of Illinois in Texas were to wire home that despite their best efforts the government of Texas was about to grant all its new oil concessions, like all those of the last five years, to citizens of New York and California. Could Illinois long remain inactive in the face of the "menace" offered by these powerful states to its own economic expansion abroad? Illinois, Texas, and New York are not economic units, properly speaking, at all. They are political and administrative units with more or less accidental territorial boundaries. But if consular and commercial reports came in regularly to their state capitals from "abroad," and statistics were published monthly on their economic relations with other states, their citizens and officials would soon *think and act as though* these states were economic units, to the confusion of an economic system based on much wider areas of interdependence than those covered by separate states. The result would be political friction as well as economic loss. Turning back to national states again, one of the most disastrous misapprehensions of reality with which modern mankind is afflicted is the tendency to think and act as though national states were economic units with collective economic interests abroad separate from those of other similar units. No small share in the perpetuation of this fatal misapprehension, and in the resulting attempts to govern a world economy by national political jurisdictions, must be attributed to the nationalistic agencies through which international economic information is supplied today.

The promotion of international economic contacts by

War and the Private Investor

national agencies likewise has its evil results, sufficiently obvious in the frantic and ridiculous (if not so tragic) mutually neutralizing efforts of national states these days to increase their trade at the expense of each other. The fact that this work of economic promotion is carried on by national agencies, in the first place, is a glaring defect from the standpoint of orderly organization of the modern worldwide economy. To have it largely in the hands of diplomatic and consular officials who also represent their nations politically is just one more dangerous unfitness in a totally absurd and dangerous system. The power and prestige and potential political friendship or hostility of a great nation inevitably influence the consideration of contracts or concessions to which even "unofficial" support is given by its diplomats, and the atmosphere of rivalry and suspicion engendered among the diplomats of different powers by their aid to the competing commercial projects of their countrymen cannot but carry over into political relationships.¹

A useful contribution to the denationalization of inter-

¹Sir Arthur Salter writes on this point, with particular reference to diplomatic participation in commercial struggles by the representatives of great powers at the smaller capitals:

"The results are of many kinds and almost all disastrous. One Minister may acquire special relationships with one group of rival politicians, and may be interested in their success at a moment of political crisis; the result may be that the impact of an influence derived from the strength of a great foreign country may add one more complicating factor to the difficult problem of an unstable political situation. Then the success of one Minister in securing a trade advantage is always resented by the others and usually ascribed to the use of illegitimate means of persuasion. As the arguments used are unknown—and as there is no recognized criterion to distinguish between what is legitimate or not—this is unavoidable. The consequence is that the diplomatic representatives are kept in a constant state of rivalry and mutual suspicion; and their ability to exercise a collective influence in favor, for example, of a pacific policy in relation to a local political difficulty is correspondingly impaired. This state of mind is reflected in their dispatches to their home governments. If we could see the correspondence which pours into the Foreign Offices of the Great Powers from their representatives in small capitals abroad we should find a steady stream of complaint and suspicion of the activities of other Ministers. This constitutes a constant influence tending to injure the relations of the Foreign Offices of the Great Powers themselves and likely at any moment to be a real factor in international relations." (Sir Arthur Salter "A New Economic Morality," *Harper's Magazine*, 166 [May, 1933], p. 645.)

Towards a Policy

national investment (and also trade) relationships would therefore be made by the development of a world "consular service" for the provision of detailed economic information and the encouragement of world commerce. Such a service could best be built on the foundation already laid by the excellent work of the League of Nations and the International Labour Organization in the field of economic information. It should eventually comprise a staff of trained agents in every principal city and economic region of the world, engaged simultaneously in reporting significant data from their locality to a central office and furnishing data needed within their locality regarding the economic affairs of any other part of the world. This would be, in other words, a world-wide system of economic information organized around a central clearing-house and providing to the managers of economic enterprises everywhere the type of information which the foreign commercial agents of some national governments now endeavor to supply to their citizens. The world system would differ from the existing national systems in two main respects. In the first place, the world system ought to provide a better service, more comprehensive, more efficiently organized, and less costly on the whole. One agent of the world economic information service, for example, with his assistants, could be stationed in Venezuela to send in one series of really adequate reports; nowadays at least a dozen equally superficial reports are doubtless sent to as many different capitals by the agents of different commercial nations, while the smaller countries cannot afford to maintain agents for the purpose. In the second place, the world system of economic information would be impartial and disinterested. Because it would not be out to promote the interests of any particular nationality or group, it would doubtless render better service to all legitimate economic enterprises than the existing national services. When all nations seek to push their business men ahead in foreign dealings at the expense of business men of other nations the net result to everybody concerned is nil, except for the creation of antagonisms. The

War and the Private Investor

actual aid to business enterprisers would be greater from a disinterested facilitation of their work available to all on equal terms.

It might be hoped that the world consular system would gradually by its superior efficiency undermine the national economic foreign services and take over those of their functions that are worth continuing. Thus a system of world economic reporting would be set up which would not be bound to think and work in nationalistic terms. Its statistics would probably be presented in terms of industries, natural areas defined by the presence of certain resources, and other economically significant categories. Thus statesmen might be led to think and act on economic matters more in accordance with the realities of the economic world.

Finally, a world consular service might perform useful functions in connection with the work of the World Investment Commission proposed earlier. Its representatives would be available for the provision of impartial reports, for conciliation, perhaps even for the conduct of negotiations on disputes before the Commission.

THE IMPORTANCE OF MORE RESEARCH

A practical suggestion with which few will disagree is that a great deal more research, indeed, continuous research, on all aspects of the world problems connected with international investment is needed. The attack of statesmen on these problems should be intelligently guided and carefully evaluated at every stage, and for that purpose more penetrating studies are necessary from time to time than can be made by busy men occupied with day-to-day affairs of state.

Private investigators—workers in the social sciences connected with universities or research institutions—can render a useful service in this respect, especially by bringing to bear the general body of knowledge comprised in economic, social, and political science upon the problems of international investment. Greater coördination of individual efforts in this complex and important field is much to be desired. Further-

Towards a Policy

more, an international commission should be constituted, probably under the auspices of the League of Nations, charged with the duty of studying comprehensively the political problems connected with world-wide capital investment and empowered to submit definite recommendations. There might be an inclination to extend the scope of such a commission's inquiries into other phases of the "Economic Tendencies Affecting the Peace of the World,"¹ but if so the general commission should certainly be divided into sub-commissions, each with ample means for the study of a particular problem of limited scope.

IN GENERAL

This chapter of suggestions must not be concluded without emphasizing that the specific devices proposed above are neither sufficient in themselves nor possible of realization unless progress can be made in certain great international tasks of a more general character. Indeed, to approach these broader problems of world statesmanship through the avenue of some specific need like that of lessening international investment friction is the best way to see their true importance. It can be shown that most of the general international problems of our time have a rather direct bearing upon the successful or unsuccessful adjustment of international investment conflicts. For example:

The League of Nations. It is worthy of note that practically all the specific measures proposed in this chapter for dealing with the political problems raised by international investments depend in some fashion upon the presence of a world political organization. If the League of Nations did not exist it would be necessary to create it, or something like it, before investment problems could be attacked with any hope of

¹The title of a memorandum, submitted by Professors M. J. Bonn and André Siegfried at the request of the Economic Consultative Committee of the League. The memorandum was designed to suggest fruitful topics for studying the relation between economic activities on the one hand and war and peace on the other. It grew out of a resolution of the World Economic Conference of 1927. (Unnumbered League document, dated April 9, 1929.)

War and the Private Investor

success. The League should be supported, strengthened, and developed. Its legislative powers should be increased and its authority enlarged. Just as the loose league of sovereign states first established under the Articles of Confederation developed into the federal government of the United States of America, so the League of Nations must be developed from a confederation of sovereign states into a federal world government. Of course the United States, which has such a large stake in the orderly supervision of international investment relationships, should actively encourage this process. An essential step is entry into the League.

Political Security and Disarmament. Anything which tends to remove the ever-present fear of war contributes to the solution of the problems of international investment friction. The national strategy of power is one of the greatest causes, as we have seen, for the involvement of private investments in political friction. When nations live in a constant sense of insecurity, knowing that a war may break out any time, they will fight most readily over those things which affect their capacity to fight—strategic routes, military and naval bases, economic power, questions of prestige. These are the factors which have been at the bottom of the bitterest disputes among the great powers over international investments. Insofar as any development of international organization, renunciation of war, pacific settlement of international disputes, or disarmament tends to augment the political security of peoples, to remove their fear of imminent war and the necessity to prepare for war, the political problems of international investment are made less difficult.

Economic Disarmament. Another of the most potent causes of international friction over investments has been the fear of nations that their trade and finance might be excluded from external markets by the economic policies of other nations. This fear has stimulated the scrambles for colonies, spheres of influence, and concessions abroad, which in turn have given rise to the most serious international investment conflicts. It may be said with justice, therefore, that no other policy of

Towards a Policy

nations has contributed more decidedly to the promotion of investment friction than that of nationalistic commercial protection. It is plain that whatever is done toward the reduction of protective tariffs, the abolition of trade discriminations, the assurance of an open door to commerce in colonies, protectorates, and mandates, and the removal of other nationalistic barriers to trade, will aid in solving international investment problems.

Development of the International Labour Organization and the Mandates System of the League of Nations. Two international agencies which are accomplishing something toward the adjustment of fundamental sources of conflict between capital-importing and capital-exporting countries are the International Labour Organization and the Mandates Commission of the League. The encouragement and extension of their work will contribute to the solution of political problems arising out of international investment.

International Control of Intervention. If it is not possible to eliminate armed intervention altogether, it should at least be subjected to international control and thus be made a genuine police function controlled by the interests of the world community rather than by those of a particular state. A satisfactory solution of this general political problem would decrease the suspicion now attached to alien investments in weak countries and remove the possibility of using investments as tools and pretexts of conquest, thus aiding materially in the prevention of investment friction.

International Civic Training. It is all too evident that the measures and devices proposed in this chapter can never succeed, cannot even be tried, unless there is a sufficient sense of world citizenship among the different peoples of the earth and among their leaders. Such a sense of world citizenship may be stimulated by a rational appreciation of the world-wide interdependence of economic, social, and political life, but to be politically effective the emotions must also be touched and loyalties to new supra-national symbols must be developed. Can such loyalties be achieved short of an inter-

War and the Private Investor

national working-class revolution, or can they be achieved by such a revolution? That is one of the most fundamental questions affecting the future form of social life on this planet. The development of international attitudes in the schools, world intellectual coöperation, adult education on the interdependence of the modern world, celebration of the heroes common to all mankind—all these things, and many more at first sight quite unrelated to international investments, have an important bearing on the specific problem of investment friction.¹

IN CONCLUSION

The preceding pages have suggested that great construction enterprises and industrial developments of world-wide importance might regularly be undertaken in the future by international corporations, perhaps international mixed corporations, chartered mondialement without nationality; that the supervision of these corporations and of other international enterprises might be entrusted to a World Investment Commission, replacing the system of national diplomatic protection; that their capital might be collected through a World Investment Bank; that economic information, assistance, and regulation of various kinds might be provided through a World Consular Service; and that a World Commercial Court, to which international corporations and other international enterprises would have direct access, might be available for the settlement of legal questions. All these specific measures would put into practice the guiding principles of denationalization and mondial supervision which this investigation has shown to be the necessary basis for a peaceful and orderly solution of the political problems connected with international investment.

Are these suggestions shocking? The reader may find them so if he has been well trained in the traditional diplomacy and the traditional legal theory of international relations. At the

¹Consult Charles E. Merriam, *The Making of Citizens* (Chicago, 1931), pp. 310-18, 348, 356.

Towards a Policy

same time he may take great satisfaction in the successive innovations which have revolutionized modern mechanical arts! In that world of transport which has so profoundly affected the economic and social relationships dealt with in this volume, the watch-word of the moment is "streamlined." Is it more important to develop new mechanical apparatus to overcome the friction of the air and move men more swiftly from place to place, than to develop new political apparatus for reducing the economic and social frictions bound to result from increased international contact? In the field of mechanical transport no one will dispute that as speeds increase improved methods of control and protection have to be invented; all sorts of adaptations have to be made in the interests of safety. It is no less true that in the field of international human relations today adaptations need to be made in the interests of safety; modern international economic contacts require improved instruments of control and protection. Mechanical engineers, whose job it is to provide rapid and safe transportation, are highly conscious of the fact that new speeds demand new controls and new safety devices. Are statesmen, whose job it is to promote the welfare of human society, sufficiently conscious of the corresponding necessity in international affairs? As for the "passengers" of our modern complicated international system, they know little about the mechanism that runs it, and in the absence of intelligent and courageous leadership they are likely to insist that the safety of their streamlined train depends upon retaining the tested devices of their fathers—tested, that is, by years of operation on a stagecoach. "Safety" in international relations, as elsewhere, is not a static thing; it depends upon continuous adaptation to new conditions. These pages have tried to sketch some of the novel developments which statesmen ought to consider for the international economic relations of a "streamlined" age. That explains the untraditional nature of the proposals advanced in this chapter.

APPENDIX

APPENDIX A

NUMERICAL DATA AND SOURCES FOR THE CHARTS OF CHAPTER I

DATA OF CHART I

Total Long-Term Foreign Investments Owned by Residents of the Principal
Capital-Exporting Countries
(In millions of dollars)

	<i>Great Britain</i>	<i>France</i>	<i>Germany</i>	<i>United States</i>
1855	2,300	1,000	Small	Small
1870	4,900	2,500	Small	Small
1885	7,800	3,300	1,900	Small
1900	12,100	5,200	4,800	500
1914	19,500	8,600	6,700	2,500
1929	18,200	3,500	1,100	14,700

In arriving at these figures, I was of necessity guided by a large number of estimates made at different times by different authorities for diverse purposes and with unequal care. The actual procedure was to plot all the known estimates for each country on a sheet of graph paper, thus arriving at a curve of "the consensus of informed opinion" regarding the total investments of each country at different dates. With the aid of this curve, what seemed to be the "best" estimates for 1855, 1870, 1885, and so on, were then selected. Sometimes this was an estimate that had been previously made by some one authority, sometimes it was a compromise among several estimates relating to the same or nearly the same year. Conversions to United States currency were made at \$4.87 to the pound, \$0.192 to the franc (\$0.0392 for 1929), and \$0.238 to the mark. Dollar results were then rounded to the nearest hundred million. The collection of estimates on which the figures in the table are based follows.¹

¹These estimates are sprinkled through a mass of heterogeneous literature, for most of them—the earlier ones, at any rate—have been made incidentally, with a view to application in the discussion of some specific problem. For example, some have been arrived at in the course of estimates of national wealth or income, others in the discussion of foreign trade history, others to be used as propaganda for larger navies, and many with reference to post-war problems connected with international debts and reparations. This very diversity of purpose indicates something of the ex-

War and the Private Investor

ESTIMATES OF BRITISH INVESTMENTS ABROAD (INCLUDING COLONIES)

<i>At end of year</i>	<i>Amount in million pounds</i>	<i>Authority</i>	<i>Source and Remarks</i>
1827	93	London Statistical Society	<i>Statistical Illustrations of the British Empire, 1827</i> , p. 112. This amount was lent to foreign governments in the decade 1816-1825. Total foreign investment would be much larger.
1854	195-230	Jenks	<i>The Migration of British Capital, 1927</i> , p. 413.
1854	550	Bowley	<i>England's Foreign Trade in the 19th Century</i> , rev. ed., 1905, p. 76.
1854	600	Seyd	<i>Journal of Society of Arts</i> , April 15, 1878, p. 408. (Includes short-term trading accounts.)
1860	750	Bowley	Cited above.
1872	1100	Seyd	<i>Journal of Society of Arts</i> , April 5, 1878, p. 407. (Includes short-term trading accounts.)
1875	1000-1100	Seyd	<i>Journal of Society of Arts</i> , March 10, 1876, p. 309. (Includes short-term trading accounts.)
1875	1400	Bowley	Cited above.
1875	1048	Sir Robert Giffen	<i>The Growth of Capital, 1889</i> , p. 30.
1878	900-950	Seyd	<i>Journal of Society of Arts</i> , April 5, 1878, p. 409.
1880	1500	Bowley	Cited above.
1881	1250	Nash	<i>A Short Inquiry into the Profitable Nature of Our Investments</i> . (Cited by C. K. Hobson, <i>The Export of Capital, 1914</i> , p. 144.)

treme variation in reliability and objectivity to be expected among them. Furthermore, in many cases the estimators were not really trying to measure the same thing. Some paid attention only to securities publicly floated, others based their figures on these and added guesses as to direct investments abroad, some few may have included short-term trading balances, and others appear to have had no very clear idea as to what they were including or excluding. Nevertheless, this compilation affords an interesting picture of the trend of informed opinion regarding the amounts of foreign investment over the last century, and it may have further value to the discriminating by revealing how extremely unreliable even the best of such estimates have been in the past and of what uneven quality are the figures available on the foreign capital holdings of different countries today.

In compiling the British estimates, valuable suggestions were received from notes made by Miss Cleona Lewis of the Institute of Economics, Brookings Institution, Washington, author of *The International Accounts* (New York, 1927). Many of the French estimates were assembled in H. G. Moulton and Cleona Lewis, *The French Debt Problem* (New York, 1926), p. 323, and many of the German estimates in H. G. Moulton and C. E. McGuire, *Germany's Capacity to Pay* (New York, 1923), p. 260.

Appendix

ESTIMATES OF BRITISH INVESTMENTS ABROAD—Continued

<i>At end of year</i>	<i>Amount in million pounds</i>	<i>Authority</i>	<i>Source and Remarks</i>
1882	1500	Giffen	"The Use of Import and Export Statistics." In <i>Economic Inquiries and Studies</i> , 1904, Vol. I, p. 339.
1885	1300	Giffen	<i>The Growth of Capital</i> , 1889, p. 11.
1890	2000	Bowley	Cited above (<i>England's Foreign Trade</i>).
1895	1600	Hirst, applying Giffen's method.	In Porter, <i>Progress of the Nation</i> , 1912, p. 701.
1900	2500	Speyer	"Some Aspects of National Finance," lecture before Institute of Bankers, June 7, 1900. (Reprinted in <i>Die Entwicklung der deutschen Seeinteressen</i> , 1905, pp. 239-40.)
1905	2025	Hirst, applying Giffen's method.	Cited above.
1907	2700 3000	Paish	<i>Journal of Royal Statistical Society</i> , September, 1909, p. 473. The larger figure allows for capital privately invested for which data are unobtainable.
1909	2332	Hirst, applying Giffen's method.	Cited above.
1910	3192 3500	Paish	<i>Journal of Royal Statistical Society</i> , January, 1911, p. 187. The larger figure allows for capital privately invested for which data are unobtainable.
1913	3714 4000	Paish	<i>Statisti</i> , February 14, 1914. The larger figure allows for capital privately invested for which data are unobtainable.
1913-14	3904	Crammond	<i>The British Shipping Industry</i> , 1917, p. 32.
1926	3896	Sir Robert Kindersley	<i>Economic Journal</i> , March, 1929. (Listed securities only.)
1927	3990	Kindersley	Cited above. (Listed securities only.)
1929	3438 3738	Kindersley	<i>Economic Journal</i> , September, 1931. The larger figure allows for unlisted investments not directly covered by the inquiry.
1930	3424 3724	Kindersley	<i>Economic Journal</i> , June, 1932. The larger figure allows for unlisted investments not directly covered by the inquiry.
1931	3410 3700	Kindersley	<i>Economic Journal</i> , June, 1933. The larger figure allows for unlisted investments not directly covered by the inquiry.
1932	3355 3640	Kindersley	<i>Economic Journal</i> , September, 1934. The larger figure allows for unlisted investments not directly covered by the inquiry.

War and the Private Investor

ESTIMATES OF FRENCH INVESTMENTS ABROAD

The estimates of Alfred Neymarck, made over a series of years by the same methods and finally brought together in his report to the Institut International de Statistique, give a degree of internal consistency to French pre-war investment figures. Like practically all French estimates, Neymarck's were based on security issues. French capital characteristically went abroad in this form, however; Frenchmen were much less inclined to make direct business investments away from home than were Englishmen, Germans, and Americans.

<i>At end of year</i>	<i>Amount in billions of pre-war francs</i>	<i>Authority</i>	<i>Source and Remarks</i>
1850	2.5	E. Théry	Cited by A. Théry, <i>Les grands établissements de crédit français</i> , 1921, pp. 80-1.
1869	10.	A. Neymarck	<i>Bulletin de l'Institut International de Statistique</i> , Vol. XX, Part II (1915), p. 1406. (Report presented in 1913.)
1870	12-14	L. Say	<i>Rapport sur le paiement de l'indemnité de guerre</i> , 1874, pp. 70-1.
1875	12.5-13.75	E. Seyd	<i>Journal of Society of Arts</i> , March 10, 1876, p. 309.
1880	15.	A. Neymarck	Cited above.
1888	18.5	A. de Foville	Cited by P. Arndt, "Neue Beiträge zur Frage der Kapitalanlage im Auslande," <i>Zeitschrift für Sozialwissenschaft</i> , 1915, p. 378.
1890	20.	A. Neymarck	Cited above.
1892	21.	E. Théry	<i>Fortune publique de la France</i> , 1911, p. 197.
1897	26.	R. G. Lévy	<i>Revue des Deux Mondes</i> , March 15, 1897, p. 440.
1897	26.2	E. Théry	<i>Les valeurs mobilières en France</i> , 1897, p. 185.
1899	27.	E. Théry	<i>La France économique et financière</i> , 1900, p. 257.
1902	25-27	A. Neymarck	Cited above.
1902	30.	Official investigation	under direction of Minister of Foreign Affairs, by means of questionnaires to French diplomatic agents and consuls. <i>Journal Officiel</i> , September 25, 1902, p. 6389.
1902	33-34	P. Leroy-Beaulieu	Cited by P. Arndt in article cited above.
1904	27-30	A. Neymarck	Cited above.
1906	30-32	A. Neymarck	Cited above.
1907	37.15	E. Théry	<i>Les progrès économiques de la France</i> , 1908, p. 307.
1908	32-35	A. Neymarck	Cited above.

Appendix

ESTIMATES OF FRENCH INVESTMENTS ABROAD—*Continued*

<i>At end of year</i>	<i>Amount in billions of pre-war francs</i>	<i>Authority</i>	<i>Source and Remarks</i>
1908	38.	E. Théry	<i>Fortune publique de la France</i> , 1911, p. 197.
1909	40.	E. Crammond	<i>Journal of the Royal Statistical Society</i> , September, 1909, p. 483.
1910	38-40	A. Neymarck	Cited above.
1910	40	W. Zollinger	<i>Die Bilanz der internationalen Wertübertragungen</i> , pp. 111-12.
1912	40-42	A. Neymarck	Cited above.
1912	40-42	Yves Guyot	<i>Annals of the American Academy of Political and Social Science</i> , November, 1916, pp. 41-3.
1913-14	45	C. K. Hobson	<i>Annals of the American Academy of Political and Social Science</i> , Vol. 68 (November, 1916), p. 32.
1913-14	45	Moulton and Lewis	<i>The French Debt Problem</i> , 1925, p. 331.
1913-14	50	G. Martin	<i>La situation financière de la France</i> , 1914-24, 1924, pp. 100 and 106.

I have not been able to find any studies of the amount of French foreign investments in the post-war period which correspond to those of Neymarck before the war or of Kindersley in England and the Department of Commerce in the United States. Some estimates of income from investments abroad have been made in connection with balance of payment studies. The League of Nations, for its *Memorandum on Trade and Balances of Payments* series, in the absence of official estimates, uses those published by M. Pierre Meynial in the *Revue d'économie politique*. These include, for 1929, 4,100 million francs representing interest and dividends received on account of long-term investments abroad by French nationals, and similar receipts of 500 million francs by foreigners living permanently in France. The total, 4,600 million francs, I have capitalized at 5.1 per cent, which is the average rate of return estimated to have been received on French investments in 1914.¹ This gives 90 billion francs, or approximately 3,500 million dollars, which is the rounded figure used in Chart I for French investments as of the end of 1929.²

¹League of Nations, *Memorandum on International Trade and Balances of International Payments*, 1927-1929 (Geneva, 1931), Vol. II, p. 90.

²Since the above was written a study by Jean Malpas, *Les Mouvements internationaux de capitaux* (Paris, 1934), has come to hand. The part devoted to French long-term foreign holdings after the war rests on Meynial's work, but also alludes to estimates which appeared in *L'Europe Nouvelle* of January 11, 1930, attributed there to M. Olphe-Gaillard. These put French foreign security holdings in 1925-6 at 80 billion francs, in 1926-7 at 60, in 1927-8 at 80, and in 1928-9 at 118 billion francs.

War and the Private Investor

ESTIMATES OF GERMAN INVESTMENTS ABROAD

The remarkable scatter of opinion regarding the amount of German capital abroad just before the war is due to two facts. First, much German investment was made directly in trading facilities and overseas enterprises without special security issues, and, second, there was a lack of reliable data even on those investments represented by securities. Practically all the German estimators in the decade before the war were influenced, some of them quite uncritically, by the unreliable and incomplete investigation of the Imperial Marine Office.

Year	Amount in billions of marks	Authority	Source and Remarks
1883	4-5	G. Schmoller	Securities only. Assumed as basis for the 1892 estimate. Introduction to statistical appendices of the <i>Borsen-Enquête-Kommission</i> , 1893.
1892	10	G. Schmoller	Cited above. Securities only.
1892	13	W. Christians	<i>Deutscher Oeconomist</i> , January 27, 1894. Securities only. Cited in J. M. Keynes, <i>Economic Consequences of the Peace</i> , p. 162.
1893-4	12	Reichsbank-president Koch	Cited in Keynes, same.
1892-3	15	Miquel	Cited in Riesser, <i>The German Great Banks and Their Concentration</i> . (Report of U. S. National Monetary Commission), p. 803. (Prussian capital alone.)
1905	24-25	Riesser	<i>The German Great Banks and Their Concentration</i> , p. 803. Citing Admiralty memorandum, "Die Entwicklung der Deutschen Seeinteressen."
1905	25	Ballod	Cited in Riesser, same.
1905	16	Imperial Marine Office	<i>Die Entwicklung der deutschen Seeinteressen</i> , 1905. This figure is for securities only. Riesser, cited above, adds 7.7-9.2 billion marks for business enterprise abroad and says the resulting figure is probably much too small.
1906	16	Koch	Securities only. Cited in Steinmann-Bucher, <i>350 Milliarden deutsches Volkvermögen</i> , pp. 44-47.
1909	30	Steinmann-Bucher	Cited above.
1912	20	Crammond	<i>Journal of the Royal Statistical Society</i> , July, 1914, p. 803.
1912	30	Navy League	<i>Deutschland sei wach!</i> 1912, p. 148.
1912	35	P. Arndt	<i>Deutschlands Stellung in der Weltwirtschaft</i> , 2d edn., 1913, p. 29.

Appendix

ESTIMATES OF GERMAN INVESTMENTS ABROAD—Continued

Year	Amount in billions of marks	Authority	Source and Remarks
1913	20	Helfferrich	<i>Deutschlands Volkswohlstand</i> , 1888-1913, 1914, pp. 112-13.
1913	20-25	Kurt Singer	<i>Wirtschaftsdienst</i> , July 7, 1922, pp. 660-61.
1913	35	August Müller	<i>Reconstruction</i> , February-March, 1922-23, p. 218.
1913-14	20	C. K. Hobson	<i>Annals of American Academy of Political and Social Science</i> , Vol. 68 (November, 1916), p. 32.
1913-14	20	Moulton and McGuire	<i>Germany's Capacity to Pay</i> , 1923, p. 32. (A net sum, subtracting foreign capital in Germany.)
1913-14	25	Ballod	Cited in Keynes, same.
1913-14	25	Pistorious	Cited in Keynes, same.
1913-14	20-30	Steinmann-Bucher	<i>Das reiche Deutschland</i> , 1914, p. 54. <i>Deutschlands Volksvermögen im Krieg</i> , 1916, p. 21.
1913-14	28	Second Committee of Experts (McKenna Committee)	1924.
1913-14	30	Paish	<i>Contemporary Review</i> , September, 1919, p. 255.
1913-14	31	H. David	<i>Weltwirtschaftliches Archiv</i> , 1919, I, 31 ff. (Including 3.5 billion marks of short-term trading accounts abroad he reaches a figure of at least 34 billions.)
1913-14	36	P. Arndt	<i>Zeitschrift für Sozialwissenschaft</i> , 1915, p. 455.
1923	5.7-7.8	Second Committee of Experts (McKenna Committee)	1924.
1930	4-5	Reich Statistical Office.	<i>Wirtschaft und Statistik</i> , X, No. 22 (November, 1930), p. 894.
1926-31	4.5-5	Report of the Basle (Wiggin) Committee.	

ESTIMATES OF UNITED STATES INVESTMENTS ABROAD

At end of year	Amount in millions of dollars	Authority	Source and Remarks
1899	500	Nathaniel T. Bacon	<i>Yale Review</i> , IX, 265 ff., Nov., 1900.
1900	500	H. E. Fisk	<i>Inter-Ally Debts</i> , 1924, pp. 306-10.
1909	1,500	Sir G. Paish	<i>Report of United States National Monetary Commission</i> , XX, pp. 172-176.
1909	2,000	H. E. Fisk	Cited above.
1909	2,000	Chas. F. Speare	<i>North American Review</i> , July, 1909, pp. 82-92.
1912	1,902	John B. Osborne	<i>North American Review</i> , May, 1912, pp. 687 ff.
1913	2,625	Max Winkler	Foreign Policy Association, <i>Information Service</i> , IV, Sup. No. 1 (March, 1929).

War and the Private Investor

ESTIMATES OF UNITED STATES INVESTMENTS ABROAD—*Continued*

Year	Amount in millions of dollars	Authority	Source and Remarks
1913	2,500	H. E. Fisk	Cited above.
1923	7,650	H. E. Fisk	Cited above.
1921	8,020	Bureau of Foreign and Domestic Commerce, U. S. Dept. of Commerce, yearly estimates in connection with annual balance of payments studies, revised and summarized in "A New Estimate of American Investments Abroad," <i>Trade Information Bulletin</i> No. 767 (Washington, 1931), p. 25.	
1922	8,877		
1923	9,135		
1924	10,004		
1925	10,876		
1926	11,684		
1927	12,656		
1928	13,973		
1929	14,764		
1930	15,170		
1919	5,678	Max Winkler, estimates prepared annually over a series of years for the Foreign Policy Association and published in its <i>Information Service</i> (<i>Foreign Policy Reports</i>). Vol. IV, Sup. No. 1, March, 1928; Vol. V, Sup. No. 1, March, 1929, Vol VI, Sup. No. 1, May, 1930; Vol. VII, No. 24, February 3, 1932. The 1919 estimate is adopted by Winkler from <i>The International Position of the United States</i> (N. Y., National Industrial Conference Board, 1929), p. 48.	
1922	7,775		
1923	8,175		
1924	9,386		
1925	11,535		
1926	12,855		
1927	14,500		
1928	15,601		
1929	16,604		
1930	17,528		
1931	17,968		

FOREIGN INVESTMENTS IN THE UNITED STATES

DATA OF CHART II

(A) Total Foreign-Owned Long-Term Investments in the United States.

(B) Total Long-Term United States Investments Abroad.

(In millions of dollars.)

	A	B
1855	275	No data, but small
1870	1,400	" " " "
1885	2,000	" " " "
1900	3,330	500
1914	4,500	2,500
1929	4,700	14,700

The figures of column B above are based on estimates already listed on the preceding page. Estimates bearing on foreign investments in the United States are collected below:

Appendix

FOREIGN INVESTMENTS IN THE UNITED STATES—*Continued*

<i>At end of year</i>	<i>Amount in millions of dollars</i>	<i>Authority</i>	<i>Source and Remarks</i>
1838	150-200	<i>Review of Economic Statistics</i> , Vol. I (July, 1919), pp. 215 ff.,	"The Balance of Trade of the United States," by Charles J. Bullock, John H. Williams, and Rufus Tucker. A committee report to the House of Representatives in 1843 is cited in connection with the 1838 figure; it placed city and state debts held abroad at \$150,000,000.
1839	200	President Jackson, cited by C. K. Hobson, <i>The Export of Capital</i> , 1914, p. 111.	
1853	222	Secretary of the Treasury	Reply to Congressional resolution. Sen. Ex. Doc. No. 42, 33rd Cong., 1st sess. Quoted in Cleona Lewis, <i>The International Accounts</i> , 1927, p. 137.
1860	400	Secretary of the Treasury	Cited in <i>Review of Economic Statistics</i> , cited above.
1863	200	<i>Review of Economic Statistics</i> , cited above.	A temporary return of securities took place after 1860.
1869	1,465	David A. Wells, Special Commissioner of the Revenue.	House Ex. Doc. No. 27, 41st Cong., 2nd sess. Quoted in Lewis, cited above, p. 148.
1873	1,500	<i>Review of Economic Statistics</i> , cited above.	
1875	2,000	E. Seyd	<i>Journal of the Society of Arts</i> , March 10, 1876.
1883	2,000	<i>Review of Economic Statistics</i> , cited above.	
1895	2,500	<i>Review of Economic Statistics</i> , cited above.	
1899	3,330	Nathaniel T. Bacon	<i>Yale Review</i> , IX (November, 1900), pp. 265 ff.
1899	3,100	W. Z. Ripley	<i>New York Journal of Commerce</i> , December 6, 1911. Cited in Hobson, cited above, p. 153.
1909	6,000	Sir G. Paish	<i>Report of the United States National Monetary Commission</i> , XX, 172-176. (Regarded in <i>Review of Economic Statistics</i> study cited above as too large.)
1913-14	4,500	<i>Review of Economic Statistics</i> , cited above.	
1913-14	5,000	Dow, Jones and Company.	Cited in <i>Review of Economic Statistics</i> , cited above.
1913-14	4,000 to 5,000	"All of the estimates."	<i>Review of Economic Statistics</i> , cited above.
1913-14	7,000	H. E. Fisk	Cited above, p. 312.
1920	1,500	John H. Williams	Cited in "The Balance of International Payments of the United States in 1926," U. S. Dept. of Commerce, Bureau of Foreign and Domestic Com-

War and the Private Investor

FOREIGN INVESTMENTS IN THE UNITED STATES—*Continued*

<i>At end of year</i>	<i>Amount in millions of dollars</i>	<i>Authority</i>	<i>Source and Remarks</i>
			merce, <i>Trade Information Bulletin</i> No. 503, p. 15.
1923	3,000	H. E. Fisk	Cited above, p. 312.
1925	3,000	U. S. Department of Commerce	Reference in 1920 item.
1927	3,700	U. S. Department of Commerce	"The Balance of International Payments of the United States in 1927," <i>Trade Information Bulletin</i> No. 552, p. 25.
1929	4,700	U. S. Department of Commerce	"The Balance of International Payments of the United States in 1929," <i>Trade Information Bulletin</i> No. 608, p. 32.

TOTAL LONG-TERM INTERNATIONAL INVESTMENT, BY LENDING COUNTRIES

DATA OF CHART III

(In millions of dollars.)

For Great Britain, France, Germany, and the United States, the figures are the same as those already tabulated in connection with Chart I.

	1885	1900	1913-14	1929-30
Holland	?	?	2,000	2,300
Switzerland	?	?	1,300	2,000
Belgium	?	?	1,000	1,500
Japan	?	?	(300)	1,000
Sweden	?	?	?	500
"Others"	?	?	?	2,700

Total, all countries, including large lenders not listed here

13,000 plus 22,600 plus 41,600 plus 47,500

The sum of \$2,700 million for "others" in 1929-30 is based on the following items: (A) Countries with less than \$500 million but more than \$100 million probably invested abroad—Canada, 354; Australia, 250; India, 200; Spain, at least 400; Italy, 300; U.S.S.R., at least 300; China, at least 400. (B) Countries with something less than \$100 million invested abroad, including—Czechoslovakia, 81; Denmark, 61; Norway, 54; New Zealand, 70; Austria, 35; Greece, 12; Hungary, 31; Union of South Africa, at least 13; Argentina, 8; Poland, 6; Rumania, 6; Turkey, 6.

The figures presented above for these minor lending countries are, of course, full of guesswork—more or less shrewd, perhaps, but guesswork. There is fairly reliable data for a few of them, however, and I summarize that briefly below, together with shreds of information on which some of the more daring guesses were partly

Appendix

based. Considerable use was made of the League of Nations' annual *Memorandum on Trade and Balances of Payment*, mainly the volumes 1927-1929 (Geneva, 1930), and 1930 (Geneva, 1931), hereafter cited as "BP, 1929" and "BP, 1930." These contain summaries of official and private estimates regarding the balances of international indebtedness of some countries, and for others I have made use of the interest and dividend item on long-term capital abroad, capitalizing it at what seemed to me a reasonable rate in each case. The results are doubtless highly inaccurate, but the "order of magnitude" of holdings abroad is probably fairly well indicated in most instances.

Holland. As early as the late fifties of the last century Holland's foreign investments were estimated at about \$300 million, and the total went much higher in the sixties and seventies. (C. K. Hobson, *op. cit.*, p. 130.) Since the war the securities market in Holland has had very active periods. From 1924 to 1927, for example, foreign securities to the value of some \$325 million were emitted, of which some 240 million dollars worth were reckoned to be in the possession of Dutch investors. This was in addition to investments already held. (Dr. Theodor Metz, "Die Niederlande und ihre Kredite an das Ausland," *Schriften des Vereins für Sozialpolitik*, 174 [1928-9], pp. 88, 119.) The long-term interest and dividend item in the balance of payment statement (BP, 1929), capitalized at 6%, converted, and rounded, gives the figure of \$2,300 million, which seems not unreasonable.

Switzerland. Switzerland is the oldest capital export area in Europe north of the Alps. Its foreign investments in recent times have come in part through the activity of Swiss enterprises abroad and in part from security purchases. Foreign security holdings were estimated during the World War at some \$900 million, with a yearly increase just before the war of \$20 million. On the basis of this estimate, said to be low, the Swiss capital export per capita of population stood in the relation of 3 to 4 with respect to the British and at least 3 to 1 with respect to the German just before the war. (J. Landmann, *Der schweizerische Kapitalexport*, 1916, pp. 31, 71-72.) The following estimates of Swiss foreign security holdings are given by W. Stauffacher, *Der schweizerische Kapitalexport*, 1929, p. 77:

Year	Amount in millions of dollars	Authority
1910	536	Zollinger
1912	200-300	Kurz
1913	1,120	Fahlander
Pre-war	1,100-1,200	Geering
" "	1,265	Walder-Heene
1918	844	Walder-Heene
1919	800-1,000	Schweizerische Kreditanstalt
1923	1,400-1,600 (nominal)	Schweizerische Bankvereinigung
1925	1,700	" Clerc

The Schweizerische Volksbank, says Stauffacher, in its report of September, 1926, estimated the worth of Swiss business enterprises abroad at 300 million dollars.

War and the Private Investor

Belgium. On the occasion of the Brussels World Exposition of 1910, the Foreign Ministry estimated Belgian industrial placements abroad, as of 1908-9, at \$540 million, of which one-fourth were said to be in Russia. (Cited in Ischchanian, *Die ausländischen Elemente in der russischen Volkswirtschaft*, Berlin, 1913, p. 249.) A report prepared by the German war-time administration of Belgium put its total capital outlay in Russian industries at about \$300 million, which was said to be one-third or one-fourth of the Belgian industrial capital invested abroad. ("Die belgischen Wirtschaftsinteressen in Russland," Bericht der Sektion VII der politischen Abteilung bei dem Generalgouverneur in Belgien, Brussels, 1918.) F. Baudhuin estimates the yearly export of capital from Belgium before 1914 at not less than \$54 million and believes that on the eve of the war Belgian interests abroad must have totaled \$1600 million to \$1800 million. (*Le capital de la Belgique et le rendement de son industrie avant la guerre*, Louvain, 1924, p. 168; cited in Léon Dupriez, "Belgien und die internationalen Kapitalbewegungen, 1919-1927," *Schriften des Vereins für Sozialpolitik*, Vol. 174, 1928-9, pp. 49-66.) The committee for the defense of Belgian interests in Russia placed Belgian pre-war investments there at \$470 million of industrial capital, \$128 million in state loans, and \$105 million miscellaneous claims. (E. Witmeur, "Les intérêts belges en Russie," *Rev. Ec. Internationale*, May, 1922.) These high figures are all greatly exaggerated by the fact that Belgium served as an intermediary for the capital exports of other lands, notably France, just as it has long been an *entrepôt* for wares and peoples. Heinrich König ("Belgische Kapitalanlagen in Italien," Kieler wissenschaftliche Dissertation, 1920, unpublished, pp. 310-315) shows that the actual participation of Belgian capital in the securities issued by Belgian companies having their chief activity abroad was less than 50 per cent before the war, often much less. The figure for 1929 given in the table (\$1500 million) is supported by capitalization at 6 per cent of the interest and dividend item in the balance of payments (BP, 1929).

Japan. H. G. Moulton, *Japan, An Economic and Financial Appraisal* (Washington, 1931), Appendix A, arrives at estimates of \$300 million for Japanese investments abroad in 1913 and \$905 million in 1929. C. F. Remer (*op. cit.*, p. 548) finds \$1136 million of Japanese investments in China as of the end of 1930. The 1929 inward interest and dividend item (BP, 1930) capitalized at 6 per cent would indicate \$743 million abroad.

Sweden. Inward interest and dividend on long-term capital, as of 1929 (BP, 1930), capitalized at 6 per cent, gives \$494 million.

Canada, Czechoslovakia, Denmark, Norway, New Zealand, Poland. Official or unofficial international indebtedness estimates, as of 1929 where possible, quoted in BP, 1930.

India, Austria, Greece, Hungary, Union of South Africa, Argentina, Rumania, Turkey. Inward interest and dividend item on long-term capital, 1929, reported in BP, 1930, capitalized, compared with incomplete international indebtedness statements in some cases, converted, and rounded.

Australia. Guess, based on net cumulated capital import figures in Roland Wilson, "Australian Capital Imports, 1871-1930" *Economic Record* (Melbourne) Vol. 12 (May, 1931), pp. 33-63, compared with certain gross estimates.

Spain. Spanish investment in Mexico alone has been put at \$195 million, largely in agricultural land, business, petroleum. (William Manger, "Foreign Investments in the American Republics," *Bulletin of the Pan American Union*, Vol. 65 [October, 1931], p. 1073.)

Italy. Guess. Manger (cited above) mentions estimates of \$10 million to \$50 million for Italian interests in Peru, and there must be similar scattered sums elsewhere, considering Italian banks with branches abroad and various Italian interests in Albania, Tunis, Turkey, China, etc.

Appendix

U.S.S.R. A Russian investment of \$273 million in China alone, mainly the Chinese Eastern Railway inherited from Tsarist days, is shown by C. F. Remer, *Foreign Investments in China* (New York, 1933), p. 612. The Amtorg and Intourist agencies abroad represent some investment.

China. Remer (cited above, p. 189) shows that Chinese families have surprisingly large business holdings abroad, to which perhaps Chinese \$133 million per year of receipts in the Chinese balance of payments should be ascribed, excluding remittances of wages. It is dangerous to capitalize this figure, but it supports the guess that Chinese holdings abroad are at least U. S. \$400 million.

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

DATA OF CHART IV

The percentage distribution of British holdings abroad has been calculated from the estimates of Sir George Paish, *Statist*, Supplement, February 14, 1914. Paish's figures relate only to publicly issued securities, thus omitting from the total of 3,716 million pounds an estimated 300 million pounds of foreign investment unrepresented by securities.

The available data and previous estimates regarding the geographical distribution of French pre-war investments abroad were canvassed and summarized by Moulton and Lewis (*The French Debt Problem*, 1926, pp. 332-340). I have used their conclusions, converting them into percentage figures. Herbert Feis (*Europe the World's Banker: 1870-1914*, 1930, p. 51) criticizes the Moulton and Lewis estimates as too high in the cases of Rumania, Austria-Hungary, Spain, and Portugal, and too low for Latin America, the United States, and Canada.

The German data are based on the conclusions of Feis (*op. cit.*, p. 74), converted into percentages.

DATA OF CHART V

The estimates of Sir Robert Kindersley (*Economic Journal*, June, 1933, p. 200) have been converted into percentages to show the geographical distribution of British investments as of the end of 1930. The total of 3,185 pounds so distributed includes only about 85 per cent of British overseas investment. The balance, some 540 million pounds, consisted of private investments and securities not listed on stock exchanges in the United Kingdom, as well as the overseas assets of a number of British companies whose activities were spread throughout the globe. The result drastically understates investments in the United States and, to a less extent, investments in South America, India, Canada, and China.

The percentages showing geographical distribution of United

War and the Private Investor

States investments at the end of 1930 are based on tables in "A New Estimate of American Investments Abroad," U. S. Dept. of Commerce, Bureau of Foreign and Domestic Commerce, *Trade Information Bulletin No. 767* (Washington, 1931).

TOTAL LONG-TERM INTERNATIONAL INVESTMENT, BY INVESTMENT AREAS, 1929-30

DATA OF CHART VI

The figures in parentheses following the name of each country below indicate the estimated total long-term foreign investment within its borders as of the end of 1929 (or thereabouts), in millions of dollars; methods of estimation and sources are briefly mentioned. The data at the basis of these estimates, as in the case of Chart III, are of widely varying reliability and adequacy. Some of the figures must be wide of the mark, but in most cases the "order of magnitude" will be fairly well indicated by even these crude figures.

Canada (6,124). International indebtedness estimate quoted in BP, 1930.

United States (4,700). Data cited in connection with Chart II.

Australia (3,800). Net cumulated capital import given in Roland Wilson, "Australian Capital Imports, 1871-1930," *Economic Record* (Melbourne), Vol. 12 (May, 1931), pp. 33-63, increased by an allowance of \$250 million for Australian placements abroad.

China (3,300). C. F. Remer, *Foreign Investments in China* (New York, 1933), p. 58.

Germany (3,200). Official estimate of balance of international indebtedness in *Wirtschaft und Statistik*, Vol. 10, No. 22, 1930, p. 894; quoted in BP, 1930.

Argentina (3,100). Dr. Carlos Garcia Mata, "Los capitales extranjeros en Sud America," *Rev. Econ. Argentina*, 21 (Nov., 1928), pp. 345-58. Dr. Mata's material appears in German in *Weltwirtschaftliches Archiv*, 29 (1929, I), pp. 13-15. His figure for Argentina is \$3021 million as of the middle of 1928. William Manger, "Foreign Investments in the American Republics," *Bulletin of the Pan American Union*, 65 (October, 1931), pp. 1064-1077 collects estimates from a number of sources. These substantially confirm Dr. Mata's figure. An estimate based on capitalization of outward interest and dividends (BP, 1930) at 6 per cent gave \$3126 million.

India (2,800). Remer (cited above), pp. 59-60, quotes estimates ranging from \$2000 million upwards to \$3500 million.

Mexico (2,300). Manger (cited above).

Brazil (2,600). Mata (cited above), fairly well in agreement with estimates quoted by Manger (cited above).

Malaya (1,600). This includes both Dutch and British territory in the East Indies. British investments there were placed at about \$540 million by Kindersley for 1930 (*Economic Journal*, June, 1933). The U. S. Department of Commerce ("New Estimate . . .") found \$201 million of American investments in the Dutch East Indies and \$27 million in British Malaya in 1930. Dutch investments must be large. Outward payments from the Dutch East Indies alone on account of interest and dividends (BP, 1930), capitalized at 6 per cent, indicate \$2,200 million; or, at

Appendix

10 per cent, the sum is \$1300. I have made a guess of \$1600 million for total investments in British and Dutch possessions.

United Kingdom (1,900). The U. S. Department of Commerce ("New Estimate . . .") placed American investments at \$1420 million in 1930. Business investments from all over the world must have been fairly large, and British bonds would be held abroad. The outward interest and dividend item for long-term capital (BP, 1930), capitalized at 4 per cent, indicates about \$1875 million.

Union of South Africa (1,300). Outward interest and dividend item on long-term capital, 1929 (BP, 1930), capitalized, compared with incomplete international indebtedness data, converted, and rounded.

Cuba (1,300). Manger (cited above).

Japan (1,300). H. G. Moulton, *Japan, An Economic and Financial Appraisal* (Washington, 1931), p. 524, gives \$1275 million.

Chile (1,300). International indebtedness estimate quoted in BP, 1930, as of end of 1929. Manger (cited above) indicates \$1155 million; Mata (cited above), for 1928, \$1101 million.

Belgium (1,200). Outward interest and dividend item on long-term capital, 1929 (BP, 1929), capitalized, adjusted with aid of incomplete international indebtedness data in same source, converted, and rounded.

Spain and Portugal (1,000). A guess, starting from knowledge that estimated British, French, and German investments in these countries in 1914 totaled about \$1300 million. U. S. investments in 1930 were put by the Department of Commerce ("New Estimate . . .") at \$17 million and \$95 million in Spain and Portugal respectively.

The following countries were estimated to have had between \$500 million and \$1000 million each of foreign long-term capital, totaling \$5,700 million. In millions of dollars:

New Zealand	800
Rumania	700
Uruguay	600
France	600
Poland	500
Turkey	(500)
Egypt and Suez	(500)
Tunis, etc. in North Africa	(500)
Italy	(500)
Persia	(500)

Those for which the figure 500 appears in parentheses were set down at the minimum for the class, signifying that, while the absence of data makes a definite guess too hazardous, evidence such as pre-war estimates (and in the case of Persia, earnings of the Anglo-Persian Oil Company) gave some justification for supposing that foreign capital to the extent of \$500 million to \$1000 million was present. Where definite figures are given, they were arrived at by methods similar to those already explained for other countries, and no claim can be made for having achieved anything better than very crude approximations. The same holds for the following

War and the Private Investor

figures put down for some countries probably having less than \$500 million of foreign long-term capital in 1929-30:

Sweden	400	Finland	175
Norway	400	Belgian Congo	100
Peru	400	Bulgaria	100
Venezuela	400	Guatemala	112
Denmark	360	Dominican Republic	87
Colombia	350	Paraguay	75
Hungary	350	Honduras	72
Greece	350	Costa Rica	65
Austria	320	Salvador	44
Yugoslavia	300	Ecuador	40
Holland	300	Haiti	28
Czechoslovakia	260	Latvia	27
Switzerland	250	Jamaica	22
British W. Afr.	230	Nicaragua	20
Bolivia	200	Lithuania	8
Philippines	200	Albania	5

There are omissions—areas for which there is no trace of data available but which have some small foreign investment. However, the tendency of the small individual estimates is doubtless to overstate rather than to understate the total, and this may offset the omissions in part. The total for the countries listed having less than \$500 million is \$6050 million, that for those having between \$500 million and \$1000 million is \$5,700 million, and that for those having more than \$1000 million is \$42,924 million, making a grand total for the world which reaches, by this method of estimation, \$54,674 million.

Appendix

UNITED STATES PORTFOLIO AND DIRECT INVESTMENTS ABROAD, BY REGIONS, AT END OF 1930

DATA OF CHART VII

(Source: U. S. Dept. of Commerce, Bureau of Foreign and Domestic Commerce, "A New Estimate of American Investments Abroad," *Trade Information Bulletin* No. 767 [Washington, 1931], p. 8.)

	<i>(Millions of dollars)</i>	
	<i>Direct</i>	<i>Portfolio</i>
Canada	2,049	1,893
Europe	1,469	3,461
Mexico and Central America	931	38 ^a
South America	1,631	1,411 ^b
West Indies	1,072	161
Africa	115	2.5
Asia	420	603 ^c
Oceania	155	265
Total	7,841	7,834
Deduct for international securities movement		630 ^d
	7,841	7,203

- ^a Exclusive of holdings of Mexican Government and Mexican National Railway Co. securities and very small holdings of Nicaraguan guaranteed customs bonds of 1918.
- ^b Exclusive of very minor holdings of various Ecuadorian issues.
- ^c Exclusive of holdings of Chinese securities.
- ^d It is estimated that this deduction might be distributed as follows: Canada \$150 million, Europe \$430 million, and Asia \$50 million.

APPENDIX B

LEGAL ASPECTS OF CERTAIN PROPOSALS IN CHAPTER 19

DIRECT ACCESS TO A WORLD COMMERCIAL COURT

Examples of direct access to international justice by private parties are not rare in the history of international arbitrations. A treaty of 1853 between the United States and Great Britain provided that persons having claims against either state were to turn directly to a mixed commission set up by the treaty. Such arrangements have been entered into by Uruguay with England and France, by the United States with New Granada, with Costa Rica, with Peru, with Great Britain (in 1863), by Great Britain with Venezuela.¹ In the treaties resulting from the World War mixed tribunals were set up to pass upon a large number of differences between the *subjects* of the Allied Powers and the Central Powers. These seem to have been the first international tribunals in Europe before which private parties who believed themselves injured by a state had direct access. Though the mixed tribunals established in Egypt in 1876 were not international, the judges were drawn from various nationalities, and controversies of private parties with Egypt could be brought before them. Similarly, in the Algeiras Act of 1906 the Powers established the Bank of Morocco and provided that any controversy between it and the Moroccan government should be taken before the Federal Court of Switzerland.²

In two instances an international convention has been drawn up establishing an international court before which private parties were to have direct access. The first was at the Hague Conference of 1907. Article 4 of the proposed convention (not ratified) relative to the creation of an International Prize Court of Appeal

¹Report by M. St. P. Sefériadès to the Institut de Droit International on access of private individuals to international jurisdictions. *Annuaire*, 1929, I, 505-585. The precedents here referred to are cited on pp. 530 ff.

²*Ibid.*, pp. 533, 536.

Appendix

provided that recourse could be had to the Court not only by interested states, but also by private persons, with certain limitations. In answer to the contention that only nations should be allowed to plead it was argued: (1) that international relations might be troubled rather than calmed by such a procedure; (2) that especially in the interest of the small states prize cases should not be given an inter-state character, for the small states might be restrained from acting by political considerations; (3) that it would be unjust to deprive an individual of right of appeal because his state, for political, economic, or other reasons might not wish to press the case before the Hague Prize Court; (4) that, finally, in line with the tendency of progress in international matters every person ought to be able to obtain directly the justice due him without the intervention of his government to assure this result.¹ The second example was the Central American Court of Justice created at Washington in December, 1907, by a convention between Honduras, Nicaragua, and Salvador. Under this convention private persons not only had the right to bring cases against foreign governments, but their own government could not even forbid them to do so.²

In 1910 a concrete case illustrating the impotence of a private person in bringing a legal claim against a foreign state, even where the legal issue has arisen out of commercial transactions, aroused much attention in Germany and led merchants' organizations as well as many international jurists to agitate for some form of direct access by private parties to international justice.³ The treatise on

¹*Ibid.*, p. 538. See also the Acts and Documents of the Second International Peace Conference, The Hague, 1907, II, pp. 788, 1076.

²The Sfériadès report cited above, p. 540.

³The law case of Alfred von Hellfeld vs. the Russian treasury was decided by the Prussian court for the determination of competence on June 25, 1910. The court held that a foreign state cannot be submitted to a domestic court, even where it has acted in the capacity of a private person rather than in the exercise of sovereign powers, and that this doctrine has been recognized by the courts of Germany, Austria, France, and the United States. Thereupon a Berlin merchants' organization (*Die Ältesten der Kaufmannschaft von Berlin*) memorialized the Chancellor of the German Reich in favor of an international court of arbitration for disputes between private persons and foreign states and continued to urge the matter (memorials of September 30, 1910, and May 20, 1912). A brochure by the international jurist, Dr. Hans Wehberg, which advocated the establishment of an international court for private claims, was published by an association for the promotion of German export trade (*Handelsvertragsverein*) in 1911: *Ein Internationaler Gerichtshof für Privatklagen* (Handelspolitischen Flugschriften No. 7, Berlin, 1911). The Hellfeld affair called forth a considerable literature in legal journals and stimulated much discussion of possible remedies. See the report and discussion by eminent jurists in the proceedings of the third assembly of the *Mitteleuropäischer Wirtschaftsverein*,

War and the Private Investor

The Diplomatic Protection of Citizens Abroad, published by Edwin M. Borchard in 1915, recommended the divorce of pecuniary claims against foreign governments from political considerations and their direct submission to an independent international tribunal.¹ More recently the question has been discussed by the Institut de Droit International on two occasions, the first in connection with the report of Messrs. F. L. de la Barra and A. Mercier on arbitral procedure in 1927, and the second in 1929 when M. St. P. Séfériades presented an entire report on the access of private parties to international jurisdictions.² Indeed, the question of direct access for private persons to international justice is only one aspect of a great controversy which has arisen the last few years and is even now raging among the professional guardians

Munich, October 14, 1911. In February, 1922, the Chamber of Commerce of Berlin (*Handelskammer*, successor to the organizations mentioned above) memorialized the Minister of Foreign Affairs and again urged the desirability of an international court to which private parties could have direct access, adding that recent tendencies toward increased state participation in commercial affairs—the U. S. Shipping Board, Soviet trading agencies, etc.—made the question still more important. (Documents kindly made available by Professor Wehberg.)

¹Speaking especially of public loans, Mr. Borchard pointed out that the unpaid creditor has no individual right under international law to bring about an adjustment of his claim. "The action of his government in his behalf depends upon political considerations and is entirely a matter of expediency and policy. If his government for any reason declines to become interested in his case or to espouse his claim against the foreign government the creditor is without a remedy. A legal right of the individual may therefore be sacrificed to the political exigencies of his government. With the constant growth of international contractual relations between individuals and foreign governments, the fulfillment and enforcement of legal obligations toward individuals should be divorced from political considerations. The difference in the practice of governments in the support of contract claims gives an unequal advantage to the nationals of some states and correspondingly embarrasses the governments whose policy or practice it is to decline diplomatic pressure in such cases.

"These various defects of the system," Mr. Borchard continues, "... lend much weight to the proposal, advanced with greatest emphasis in Germany, that an international court be created by international agreement for the adjustment of these essentially legal claims. The individual should be given the right to bring suit against the debtor nation before this international tribunal, as has been done in the convention for the establishment of an international prize court and in the treaty of Washington for the establishment of a Central American Court of Arbitration. The creditor will thus be assured of a hearing, the debtor state will be secured against the pressure of exorbitant claims accompanied by disagreeable diplomatic coercion, the government of the claimant will avoid what is always a potential germ of international difficulty and ill-will, with the incidental expense of pressing a diplomatic claim, and the peace of the world will be fostered by the removal of one great source of international conflict." (Edwin M. Borchard, *The Diplomatic Protection of Citizens Abroad* [New York, 1915], pp. 328-9, also pp. 861-4. In a note on p. 329 a considerable amount of German literature on the subject is cited.)

²The latter has been cited and drawn upon above, the former in Chapter 19.

Appendix

and developers of international legal theory—a controversy which relates to the fundamental reshaping of legal concepts necessitated by the increasing rôle of private organizations and individuals in modern international life. The literature on this subject is growing rapidly.¹

Messrs. Barra and Mercier pointed out that the access of private parties to international judicial procedure may be viewed in different lights according to whether the litigation is between private parties or between a private party and a state. In the first case, they held, the institution of a permanent international jurisdiction would be an important guarantee of impartiality, would assure uniformity in the interpretation of treaties, would solve conflicts of competence between different existing jurisdictions, and would avoid multiple litigation before different courts with the possibility of conflicting decisions. These advantages, the report says, would be especially marked in the case of parties domiciled in many different countries or having goods in many countries; one decision might suffice to clear up matters arising out of bankruptcy, succession, trademarks, patents, and the like. (Note that almost all international private investment matters come under this category of cases in which international jurisdiction is particularly to be desired.) Litigation of the second type, that is, between a private party and a state, might arise out of a conventional engagement, such as an international treaty, or out of a contract made by a state with private individuals, or out of a denial of justice. The desirability of establishing direct access of private individuals to international jurisdictions for litigation of this second type was the topic discussed in most detail by M. Sfériadès in 1929.

He reported that international practice has tried several different systems in order that a private party might plead against a foreign state before a judge not dependent on that state. One method is to

¹See, for a good introduction, Jean Spiropoulos, *L'Individu en droit international* (Paris, 1928), which describes the position of the die-hards who still insist that only states can be "subjects of international law," of the moderate progressives who admit that in more and more instances private parties must be considered alongside of states, and of the still more radical wing—represented by such writers as Duguit, Krabbe, and Politis—which asserts that international law relates first and foremost to individuals. See also, N. Politis, *Les nouvelles tendances du droit international* (Paris, 1927). The rights of individuals under international law as revealed in the actual practice of various international courts (arbitration courts, mixed arbitral commissions, Central American Court, Permanent Court of International Justice) and in the supervision of mandates and minorities by the League of Nations are investigated in S. Segal, *L'Individu en droit international positif* (Paris, 1932). A doctrinal discussion which includes a good bibliography is Georges Ténékidès, *L'Individu dans l'ordre juridique international* (Paris, 1933).

War and the Private Investor

recognize the competence of the courts of the state to which the private individual belongs, in certain circumstances; a second depends upon the insertion in all agreements between private individuals and states of compromise clauses providing for a method of arbitration. The defects and limitations of these two systems are obvious. The third system is that of official intervention by the state of the national affected in favor of the interests of its citizen—that is, national diplomatic protection. This system, says M. Séfériadès, presents incontestable advantages when the states involved agree to submit the difficulty to a court of arbitration or to the Permanent Court of International Justice. But the system contains the germs of incontestable disadvantages. It is oftentimes too violent a remedy, giving more than would be equitable. On the other hand, it is oftentimes absolutely insufficient to bring about a solution of all the difficulties arising between an individual and a foreign state.

First of all, it is only the powerful states that are able to take matters into their own hands when their nationals believe themselves injured by a foreign state; these states sometimes do not hesitate to use force to arrive at a solution of the conflict conforming to their views. Thus the defense of private interests sometimes risks irritating the relations between states in a manner even more dangerous than would a conflict involving the nation directly. The conflicts of interest between individuals and states of different nationalities ought never to be allowed to be elevated—or rather to degenerate—into conflicts between states, conflicts of a sort which are given to surprises as tragic as they are unexpected. Furthermore, there is good reason for generalizing to all conflicts of interest between individuals and states the Drago-Porter doctrine of the 1907 Hague convention for the limitation of the use of force in collection of contract debts. Indeed, wherever the pecuniary interest of an individual is involved it would be in the interest of justice and of the international community that the individual should act directly, without involving his state. The pride of a defendant state would suffer much less under such conditions, should the decision go against it, and the broader political interests of the states affected would rest intact.

In the actual practice of diplomatic protection, the report continues, governments will not ordinarily make common cause with their citizens abroad where more general political interests interfere. Every governmental action from abroad which is critical of the internal authority of a state, no matter how courteous, cannot but offend national susceptibilities. Under such conditions, without

Appendix

precisely lacking courage, the government of a small state, especially, will always hesitate to intervene diplomatically on account of an alleged illegality suffered by one of its nationals abroad. Or, a state asked to interest itself in a matter of secondary importance on behalf of an individual citizen may be engaged in conflicts of capital importance with the other state. In any case, the governmental protection here being discussed is completely unavailable for a whole category of persons: those without a state, the *heimatlosen*, or *apatrides*. The protection of some states may be available only in favor of certain individuals: powerful industrialists, bankers, or merchants for whom the government finds it worth while to act, perhaps for reasons of internal politics or for reasons which cannot be avowed. For small merchants without influence, and especially for the large numbers of political exiles, voluntary or forced, protection against injustices to their interests abroad may be out of the question. Finally, one may consider it certain that a state will not give vigorous representation to the interests of its citizen in concrete cases where the citizen's interest calls for a different interpretation of a treaty or a different method of thinking on delicate questions of international law than those demanded by the state's general policy.

Thus, concludes the Sfériadès report, the present recourse of individuals whose interests are injured abroad by a foreign state is unsatisfactory from many points of view. It is necessary to institute an international justice, to which private persons may have access, and which will be competent to pronounce on differences between private persons and a state. What are the objections to such a step? It has been argued that a state would never tolerate being attacked before a court by a private person. The history of mixed commissions, the framing of the Hague convention on an international prize court, the original competence of the Central American Court of Justice, may be urged to the contrary. Especially if reciprocal rights were accorded by all states to each other's citizens no harm to national dignity would seem to result. It has been said that private parties would be at a disadvantage without the support of their governments before an international court. This assumes that judges would consider the political weight of supporting governments rather than the justice of a cause in deciding cases. Furthermore, representation through his government might not always be an advantage to a citizen, for the government might be unwilling on occasion to support an argument which could some day be used against it. It has been urged that diplomatic conversations cannot take place between a government and a private person,

War and the Private Investor

that international litigations are always litigations between states, because only states are subjects of international law, and that the principle of state sovereignty is opposed to allowing a state to be cited without its consent in advance. These are all doctrinaire objections. They state the existing situation which it is proposed to change. Finally, it has been said that to allow private parties direct access to an international court would increase the number of international conflicts. This is to confound the number of conflicts with the number of cases, to believe that the former can be suppressed by suppressing the latter, by suppressing justice.¹

¹All these objections and answers are from the report of Monsieur Sfériadès, who concluded that: (1) There is no reason, either juridic or political, that can be invoked today against the conception of a system providing for the solution of all differences between a private person and a foreign state by a special international tribunal, constituted in advance, before which the private person will have direct access. (2) On the contrary, any other system of giving justice to private persons in their differences with foreign states can lead either to trial before courts that may be suspected of partiality, or to denials of justice, or even, at times, to war.

In the discussion of the report, it was urged by several members of the Institut that recourse to international law must be surrounded by certain precise conditions. Notably (at least for cases involving the international responsibility of the defendant state) such recourse should be permitted to a private party only with the support and under the control of his own government. It seems to me that this doctrine must be vigorously rejected, for reasons that have already been sufficiently elaborated.

The further question was raised: Should not a preliminary condition be the exhaustion of remedies within the defendant state before appealing against it to an international court? Also: Should not the principle be established that competence of national courts would be the rule and appeal to an international jurisdiction the exception? These points merit careful consideration when the preparation of a practical proposal is undertaken.

Finally, several members observed that giving foreigners access to an international court in appeal against a state would be giving them greater rights than those of the citizens of the state. It was answered by M. Sfériadès that different rights of this sort are not a novelty in international or municipal law. M. Wehberg argued that in principle nothing stands in the way of giving citizens in the future the right to appeal to an international court against their own state, if the state seems to have violated certain fundamental rights guaranteed by international law. Many voices in Europe have proposed this sort of protection for minorities. The departure proposed is therefore very satisfactory. It may be added, in this connection, that the same session of the Institut de Droit International adopted a declaration in favor of recognizing certain international "rights of man," thus tending to assert the primary right of the international community over that of the state.

After the discussion, M. Sfériadès withdrew the original resolutions embodied in his report and asked for a vote on the following, which was adopted unanimously, with one abstention:

"L'Institut de Droit International est d'avis qu'il y a des cas dans lesquels il peut être désirable que le droit soit reconnu aux particuliers de saisir directement, sous des conditions à déterminer, une instance de justice internationale dans leurs différends avec des États." (*Annuaire*, 1929, II, 267.)

Appendix

INTERNATIONAL INCORPORATION

There have been serious proposals looking toward the creation of some sort of "international legal personality" for private non-profit associations like the International Red Cross, the International Law Association, and international scientific bodies. The International Law Association, including in its membership some of the most eminent international jurists, adopted the following resolution at its London conference of 1910:

"It is desirable to establish by diplomatic convention an *extra-national* or *super-national* statute or governing law which may be adopted by International Associations formed for no profit, which, by reason of their nature or their object, cannot or will not submit themselves to the law of any particular defined country."¹

This proposal had previously obtained the approval of a congress of international associations held at Brussels in May, 1910, at which some 132 organizations had been represented.² A proposed international convention was drawn up and made the subject of a detailed inquiry; this proposed convention was approved by the second congress at Brussels in 1913. The parliament of Belgium took up the problem, for many international associations had their headquarters in Belgium, and considered a law under which complete civil personality might be granted to international scientific associations open to Belgians and foreigners, having an office in Belgium, and including at least one Belgian among the officers. A law to this effect was adopted in 1919, but it embodied stricter regulations than had been originally proposed.³ In 1923 the whole subject of the legal status of international associations was considered by the Institut de Droit International.⁴ M. Nicolas Politis, as rapporteur, distinguished the following types of international associations: (1) Private, not for profit; (2) Private, for profit; (3) Associations for public purposes, but due to non-state initiative;

¹International Law Association, *Report of the 26th Conference*, London, 1910, p. 210, p. 524.

²*Ibid.*, p. 210; also the report of M. Nicolas Politis, "Condition juridique des associations internationales," Institut de Droit International, *Annuaire*, 1923. pp. 126 ff.

³The Politis report, cited above, p. 128, refers to the law of October 25, 1919, *Moniteur Belge*, November 5, 1919, p. 5872.

⁴*Annuaire*, 1923, pp. 57-173; 348-381.

War and the Private Investor

(4) Associations of states. He urged that means be provided whereby associations of the first type could acquire an international legal personality, and offered a carefully elaborated treaty project for the purpose.¹ This proposed convention, as amended after discussion, was unanimously approved by the Institut.² Some members expressed regret that the report did not include international associations for profit-making purposes.

As concrete examples of already existing organizations which are not states but which have international legal personalities of their own, the following are often cited: the International Institute of Agriculture, the European Commission of the Danube, the Universal Postal Union, the League of Nations itself. All of these rest upon treaties between states and are interesting to us simply because they illustrate a tendency, born of modern necessities, to create extra-national legal entities—a tendency which is undermining the old doctrine that only states can be “subjects of international law.” The juridical basis of the Bank for International Settlements is especially noteworthy in connection with the pro-

¹The proposed treaty set up a Bureau at Brussels consisting of the diplomatic representatives or other designated representatives of the signatory states. This Bureau was to supervise the international associations, which might be of two kinds: associations without legal personality in any country, or associations already having legal personality in a given country, but desirous of obtaining the international status conferred by registration with the Brussels Bureau.

International associations so registered might, without special authorization, sue at law, acquire property, and in general make contracts needed in the pursuit of their various purposes, conforming in all such acts to the laws of the country where the acts were performed. Their power to contract and the powers and responsibilities of their representatives would be regulated by their statutes, supplemented where necessary by the law of their place of formation, for associations under the jurisdiction of a particular state, or by the law of the country where the activity of the type in question was carried on.

International associations would enjoy the same fiscal favors accorded by the signatory powers to national associations having the same objects. They would have free access to the national tribunals of the signatory powers, and would be submitted to the following court jurisdictions: regarding real estate, to the courts of the place where the property is held; regarding personal and movable property, to the courts of the domicile of their organs charged with the responsibility of representing them legally, or to those of the place of incorporation, if the association was incorporated in a particular state, or to those of the country where the contract involved was concluded or executed; in matters of gifts and legacies, to the courts of the domicile of the giver, etc.

Differences which might arise between two or more international associations would be brought before the Bureau in Brussels, which would endeavor to bring about friendly conciliation. Under certain circumstances the Bureau might dissolve an international association, which would have the right to contest this action before the Permanent Court of International Justice.

²There were forty members present and four abstentions. (*Ibid.*, p. 381.)

Appendix

posed international corporations, for the Bank, while it grew out of the problem of German reparations and was established by international treaties, is empowered to act not only as a non-national trustee of states but also as a commercial institution, competing with banks and financial houses on the exchanges of the world.

It was finally decided by those charged with creating the Bank that it should be established under a special charter from the Swiss government. This charter was actually issued in a form exactly prescribed by a treaty between Switzerland and the states interested in reparations, and the charter may not be amended except in agreement with these states. The Bank was also dealt with in a simultaneous treaty between Germany on the one hand and the creditor states on the other. Thus, while technically a Swiss corporation with certain internationally guaranteed privileges and immunities, the Bank for International Settlements is also in a very real sense an international body corporate. Indeed, the six legal experts who met in Brussels in December, 1929, to prepare for signature the international instruments by which the Young Plan was to be carried into execution proposed the following language:

"The parties recognize that the Bank for International Settlements will, from and after the date of its establishment, possess the quality of an international body corporate (*personne juridique internationale*)."

They also inserted an express proviso that "in view of its quality as an international body corporate (*en raison de sa qualité de personne juridique internationale*)" the Bank and its property were to enjoy certain immunities from expropriation, seizure, and the like. That is, the Bank was to come into being as the result of municipal action (the granting of a charter by Switzerland), but was subsequently by express recognition of the governments interested to take rank as an institution of international law. When the representatives of the governments assembled at The Hague in January, 1930, to conclude the agreements, however, a general unwillingness to speak in terms of a "*personne juridique internationale*" became manifest. "The thing was perhaps well enough, but there was something shocking in giving it such a name." As Sir John Fischer Williams suggests, the delegates at The Hague were like the man who suddenly discovered that he had been talking prose all his life without knowing it, with the difference that "international legal personality" is more alarming than ordinary prose. "There is a potency of unknown quality in such a name; such a name must by prudent persons be avoided, whatever rash

War and the Private Investor

lawyers might propose." And so, in the result, the agreements which underlie the Bank for International Settlements contain no reference to international legal personality.¹

The legal situation with respect to world-wide enterprises, if international incorporation were made possible, might be likened to that which would prevail in a federal state where corporation charters could be taken out either under federal law or under the law of a particular state. It is interesting, therefore, to examine the practice of federal systems in this regard. Such a situation as that just suggested is actually found in Canada, for incorporation is possible under the Dominion Companies Act, or under the Companies Act of one of the provinces.² The corporations chartered by the Dominion have power to operate in any of the provinces. Business corporations in Switzerland prior to 1881 were regulated by cantonal laws, fragmentary in character and differing widely from each other. In that year, after long deliberation, the federal government took over the task.³ In Australia, on the other hand, business cor-

¹The above paragraph rests upon Sir John Fischer Williams' masterly analysis of "The Legal Character of the Bank for International Settlements," *American Journal of International Law*, 24 (October, 1930), 665-673.

As a postscript to the foregoing the same article suggests that another of the agreements concluded at The Hague in January, 1930, that between Hungary and its creditors, provided for the creation of two "Funds" which are to possess legal personality and which, so far as the agreements themselves go, are constituted by international action alone without the grant of a charter by the authority of any one state. "These 'Funds' are thus international bodies corporate in the strictest sense of the word: They are created by an international instrument and they possess, at any rate within the territories of the States which have established them, the capacity of enjoying rights and fulfilling duties and, therefore, corporate personality. They are not incorporated by and in any one State nor subject to any one system of municipal law." They will issue bonds, but, unlike the Bank for International Settlements, will not carry on any business that might compete with private financial institutions.

²See C. A. Masten and W. K. Fraser, *Company Law of Canada* (3rd ed., Toronto, 1929); Dominion Companies Act, *Revised Statutes of Canada, 1927* (Ottawa, 1927), chap. 27; Ontario Companies Act, *Revised Statutes of Ontario, 1927* (Toronto, 1927), chap. 218; Quebec Companies Act, *Revised Statutes of the Province of Quebec* (Quebec, 1925), chap. 223; and similarly for the other provinces.

³Arthur K. Kuhn, *A Comparative Study of the Law of Corporations* (New York, 1912), p. 93. It may be noted parenthetically that Prussia, Bavaria, and the other German states had their own independent corporation procedures, modified by certain ineffective attempts to bring about uniformity, until a law on corporations was adopted by the North German Confederation on June 11, 1870. This soon became a law of the new Reich, and since then incorporation in Germany has been regulated by the Berlin government, not by the states. The Italian states also had separate corporation laws until unification took place. In 1865 a commercial code was adopted for the new Italian kingdom. (Georg Cohn, *Die Aktiengesellschaft* [Zurich, 1921], pp. 44 ff., 69.)

Appendix

porations are organized under the laws of the several states, although the Commonwealth constitution gives parliament the power to make laws with respect to "foreign corporations, and trading or financial corporations formed within the limits of the Commonwealth."¹ Similarly, in the United States of America charters are granted to business enterprises by the states and there is no general federal incorporation law, though Congress has created federal public corporations by special act. The presence of forty-eight separate incorporating authorities has led to much laxity in corporate regulation, stimulated by the efforts of some states to obtain revenue through becoming a domicile for great corporations doing a nation-wide business. Demands for the reform of this situation have been increasing in the United States of recent years and may possibly lead in the direction of federal incorporation. May an international parallel develop in future years?

¹Guerra Everett, *Trading under the Laws of Australia*, Trade Information Bulletin No. 412, United States Department of Commerce, Bureau of Foreign and Domestic Commerce (Washington, 1926), p. 11.

General Index

- Abu Musa incident, Persian Gulf, 48f.
 Abyssinia, 65, 278-281, 362-363, 412, 430; tabular analysis, 370.
 Advanced countries, 24, 374, 378f., 393, 405.
 Albania, Italian interests in and penetration of, 19, 29, 90, 235-248, 282; National Bank of, 28, 90, 242f.; tabular analysis, 370.
 Alberti, Mario, 242, 243.
 Alienation of control, measures against, 406-409.
 American China Development Company, 148-149, 165, 213.
 Anglo-Persian Oil Company, 20, 76, 107, 155, 156, 208, 282, 408, 537.
 Assimilability of capital, 378f.
 Association Nationale des Porteurs de Valeurs Mobilières (France), 204.
 Austro-German customs union, 95.
 "Backward" countries, 26, 374, 377, 378f., 393f., 475.
 Bagdad Railway, 3, 21, 41f., 105-106, 149-150, 215, 216, 217, 218, 228-229, 287, 290-291, 292-293, 296, 300, 359, 411, 422, 425-427, 430, 481, 485-487, tabular analysis, 370.
 "Balance-wheel" effect, 333, 423, 424-425, 433.
 Balkan railways, 164, 175, 481, 487; tabular analysis, 370.
 Ballin, Albert, 46, 218.
 Banca Commerciale Italiana, 28, 93, 287.
 Banco di Roma and Tripoli, 62-70, 217, 220, 282, 291.
 Bank for International Settlements, 33, 35, 38, 509-510, 458-550.
 Banque de Paris et des Pays-Bas, 225, 271, 336.
 Baring Brothers, 121, 217, 293, 299.
 Bayard, Secretary of State, 147.
 Beit, Alfred, 196-199.
 Bethmann-Hollweg, Chancellor, 194.
 Bezobrazoff, *see* Yalu.
 Bismarck, 338, 340, 342; and Godeffroy firm (Samoa), 77, 97, 120, 122, 321, and Italy, 92; colonial policy, 97, 113, 123, 312, 318-323, 431-432, friendships with bankers, 218, 290, 432; "*morbus consularis*," 126; Russian securities, 164.
 Bleichröder, Gerson von, 92, 93, 122, 218, 290, 323, 432.
 Boer War, *see* South Africa.
 Boycotts, financial, 175-176, 204, 206; trade, 204, 207.
 Branch factories, 105, 408.
 Biandais, Captain, in Samoa, 125f.
 Bribery, 205, 220-222, 224, 289.
 British and Chinese Corporation, 81, 152, 284.
 British East Africa Company, 30, 220, 312-315.
 British East India Company, 23, 307.
 British North Borneo Company, 308-310, 475.
 British South Africa Company, 23, 30, 195, 197, 200, 202, 222.
 Bulgaria, 164, 175, 364.
 Bulow, Chancellor von, 190, 215, 364.
 Caillaux, Joseph, 294, 483.
 Calvo clause, 412-413.
 Canada, investments abroad and from abroad Ch. I, App. A; no investment friction in, 379-380.
 Cape-to-Cairo Railway, 196, 222.
 Capital-labor conflicts, 391f.
 Caribbean region, anti-revolutionism, 162; U. S. interests and policy in, 30, 71, 88, 135, 150, 176, 220, 248, 272, 286, 291, 359, 362, 366, 433, 445.

General Index

- Cassel, Sir Ernest, 218, 299, 300, 487.
 Causation (of investment friction), 455-456.
 Chartered companies, 23, 58, 86, 209, Ch. 11.
 China, 176, 410, 411, 413; and clash of cultures, 398-403; attitude of foreign business in, 163; conception of law in, 142-143; concessions in, 146f., 271, 284-286; foreign banks in, 284-286; investments in, Ch. 1, App. A; importance of direct investments, 24; mining and mining law, 143-144, 164, 401, open door, 153; railways in, 82-84, 104, 146f., 165, 216, 281, 286, 291, 398-401; spheres of interest in, 81f., 281, 479; tabular analysis, 370, tied loans, 104.
 Chinese Eastern Railway, 82, 83, 274-275, 325, 491.
 Churchill, Winston, 76.
 Clemenceau, Georges, 327, 336.
 Colby, Secretary of State, 155.
 Colombia, 89, 158-160, 215, 216, 224, 362, 445; tabular analysis, 371.
 Comité de l'Afrique Française, 30, 97, 280, 324.
 Compagnie Internationale de Navigation Aérienne, 21.
 Concessions, 22-23, 127-130, 142, 144f., 149-150, 160-161, 164-166, 184, 205, 210, 228, 229, 240, 283, 284-286, 302, 329f., 350f., 362, 375, 395-396, 410-412, 418, 425-426, 478, 512, most-favored nation treatment concerning, 150; open door, 153.
 Congo-Cameroon Railway, 94, 485.
 Congo, King Leopold and Independent Association of, 319, 325, 394-395.
 Consortium, Chinese, 216, 481, 487-488; Congo, 484; policy, 478, 481-489, 499.
 Consular officers, 210; in service of private firms, 115, 117, 123; "*morbus consularis*," 126; world service, 510-514.
 Coolidge, President Calvin, dictum on protection of investors, 211-212.
 Corporation of Foreign Bondholders (England), 204.
 Costa Rica, 206, 207, 208-209; investments in, Ch. 1, App. A.
 Cowdray, Lord (Pearson), oil interests, 150, 205, 215, 362.
 Cox, Sir Percy, 47.
 Crédit Lyonnais, 271, 286.
 Crispi, Francesco, 63, 65, 79, 92.
 Curzon, Lord, 41, 127, 286.
 Delcassé, Foreign Minister, 178, 280, 287.
 Denationalization of investments, 383, 471, 493-495; specific measures, Ch. 19.
 Denby, U. S. Minister to China, 146-149, 165.
 Dettarding, Sir Henri, 207.
 Deutsch-Asiatische Bank, 102, 285.
 Deutsche Bank, 3, 28, 44, 80, 92, 105-106, 155, 175, 206, 214, 257, 285, 289, 290, 292-293, 365, 485.
 Deutsche Orient Bank, 79.
 Diaz, Porfirio, 136-139, 205.
 Dillingen Hüttenwerke, Saar firm, 252, 260-262.
 Diplomatic protection, 174-176, 291, 347, 412-413, 457, 463, 496-497, 505, determined by high policy rather than justice, 343, 348, 360f., 441-446, failure of, Ch. 16 (summary 453-454).
 Direct access, 502-504, 540-546.
 Direct investments, 21-25, 34, 105, 295, 302, 374, 500, 524, 539.
 Disconto-Gesellschaft, 93, 121, 285.
 Disraeli (Lord Beaconsfield), purchase of Suez Canal shares, 20, 274, 280; Reuter concessions, 129.
 Doheny, F. L., 205, 221, 223, 224, 227.
 Dollar diplomacy, 71, 147, 272.
 Dutch East Indies, 156.
 Economic causes of war, V-VII, X, XVf., Part II, 358, 417, 459.
 "Economic" interests for political purposes, 43, 60, 62, 84, 337, 364, 431.
 Economic interpretation of history, XI, XVI, 55, 419.
 Ecuador, 175.
 Egypt, 161, 177, 222; investments in, Ch. 1, App. A.
 Enfida affair, Tunis, 346f.
 Etatism, 478, 489-493.
 Europe, "enslavement" to American capital, 406; investment field, 10.
 Expansionism and investments, XVI, 96, 304f., 318, 324, 368, 416, 419, 422-424, 427-434.
 Export of capital, 4; estimates of amounts and distribution, Ch. 1, App. A; implies export of institutions, 141f.; means export of industrial revolution, 397.
 Fall, Albert B., 156-157, 221, 226.
 Ferry, Jules, 96, 328, 341, 348, 350, 351, 430.
 Financial controls, 176.
 Financial protectorate, 333.
 Firestone, Harvey, 108.
 Fisher, Lord John, 76.

General Index

- Foreign Bondholders Protective Council (U. S.), 204.
- France, admission to capital market, 104; expansionism, 430-431; foreign investment policy, 73, 146, 271, 273-274, 278-281, 295-296, 298, 303, 363-364; investments abroad and from abroad, Ch. 1, App. A.
- Franco-Russian Alliance, 90-91.
- French Congo, 180, 229-232.
- German East African Company, 319-321.
- German private debts, 30, 31-40, 302, 358, 384-385, 416; tabular analysis, 370.
- German Southwest African Company, 323.
- Germany, expansionism, 431-432; foreign investment policy, 72-73, 146, 272, 273-274, 296-297, 298-299, 303, 364-365; Imperial Marine Office, 98f., 291; investments abroad and from abroad, Ch. 1, App. A., 34-35; Navy League, 99; overseas banks, 102; rivalry with Great Britain in Persian Gulf, 41f.; *see* German private debts.
- Giolitti, Giovanni, 68f.
- Gladstone, William, 309, 475.
- Godeffroy firm, *see* Samoa.
- Government influence on foreign investors, Ch. 10; by participation, subsidy, guarantee, 273-282; by persuasion and inducements, 282-294; by censorship of capital export, 294-303.
- Governmental loans, 18, 19-20, 294, 302, 487.
- Granville, Lord, 128, 129, 309, 348.
- Great Britain, expansionism, 431; foreign investment policy, 73, 145-146, 273-274, 283, 297, 299-300, 362, 363; interests in Persian Gulf, 41f.; investments abroad and from abroad, Ch. 1, App. A.
- Grey, Sir Edward, 300; on aid to British concessionaires, 145.
- Guatemala, 164; investments in, Ch. 1, App. A.
- Haiti, 169; investments in, Ch. 1, App. A., land-owning in, 135-136; National Bank of, 28, 88; National Railway of, 132-135.
- Halle, Ernst von, 98-99.
- Hansemann, A. von, 81, 121-122, 218, 290, 321, 323.
- Harriman, E. H., 216.
- Hawaii, 432-433.
- Hay, Secretary John, 96.
- Hearst, William Randolph, forged documents, 226-227; Mexican interests, 226.
- Helfferich, Karl, 214, 365.
- Hobson, J. A., on control of press, 232-234.
- Homs-Bagdad affair, 228-229.
- Hongkong and Shanghai Banking Corporation, 82, 152, 285.
- Hoover, President Herbert, 175.
- Hostility of debtor towards creditor groups, 389-390.
- Imperialism, term avoided, 416.
- Import of capital, 4; estimates of amounts and distribution, Ch. 1, App. A.
- India, 177; investments in, Ch. 1, App. A.
- Indo-European Telegraph Company, 85.
- "Industry of extraterritoriality" or "protection racket," 160-161, 331.
- Institutions of adjustment, 435f., 453, 455, 463, 472, 491-497; base areas smaller than areas of interdependence, 459f., 470; consist of more than dispute settlement, 464-466.
- Intergovernmental loans, 18-19.
- Interlocking directorates of politics and finance, 214-219, 287-288.
- International corporations, proposed, 499, 504-509, 547-551.
- International investments, aids to economic foreign policy, 100f.; amount and distribution, Ch. 1, App. A; and clash of cultures, 398-403; and differential rates of social change, 404-405; as instigators of diplomatic action, XVf., 55, Ch. 5, Ch. 6, Ch. 7, Ch. 8, Ch. 11, Ch. 12, 423, 357f., 418f.; as tools of diplomacy, XVf., 55, 63, Ch. 3, Ch. 4, Ch. 9, Ch. 10, Ch. 11, Ch. 12, 357f., 418f., 423, 478; conditions under which involved in friction, Ch. 13 (summary, 387-388); of minor powers, 374; per capita, 14; political problem of, 51, Ch. 2; politically significant types of, 16f., 372-373; reflect world economic integration outstripping political integration, 15; world total, 7, 10, 532, 538.
- International Labour Organization, 499, 510, 513, 517.
- Internationalization, 481; and *see* Consortium policy.
- Intervention, control of, 517.
- Investment conflicts, between capital-importing and capital-exporting coun-

General Index

- tries, Ch. 14 (summary, 414); between capital-exporting countries, Ch. 15 (summary, 434); definition, 358; and *see* Institutions of adjustment.
- Investment friction, XVf., 366, 389, 415, 425, 478, Ch. 14, Ch. 15; cases of, tabulated and analyzed, 369f.; definition, 358; diagram (capital-exporting countries), 423; how to reduce, 470f.; recipe for, 377; underlying causes of, Ch. 17 (summary, 457).
- Investment opportunities, 97, 140f., 417f., 423, 424, 427f.
- Italy, and Triple Alliance, 64, 90-93, 95, 287, 298, 384-385 (tabular analysis, 371); expansionism of, 429-430; foreign investment policy, 73, 273-274; investments abroad and from abroad, Ch. 1, App. A; and *see* Tripoli.
- Jaluit Company, 323.
- Jameson, Dr., 195-203, 232, 317.
- Japan, 413; expansionism of, 433-434; foreign investment policy, 73, 273-274, 275-277; foreign landholding, 410-411; investments abroad and from abroad, Ch. 1, App. A.
- Jugoslavia, and Albanian question, 235f.
- Keith, Minor C., *see* United Fruit Company.
- Kiderlen, Foreign Minister von, 195.
- Knox, Secretary of State, 71, 88, 153, 272, 410.
- Korea, 21, 94, 276-277, *also see* Yalu.
- Krupp firm, 99, 106, 185, 187.
- Kuhn, Loeb and Company, 216, 286.
- Lancken, Baron von, 188, 231.
- Land problem, 394f.
- Lansdowne, Lord, 41, 47, 293.
- Laski, Harold J., theory of investment friction criticized, 420-421.
- Latin America, as investment field, 10; attitude on diplomatic protection, 439-440; investment friction and Monroe Doctrine, 385-386.
- League of Nations, 436, 496, 499, 504, 510, 513, 515-516, 548; and Albania, 236f., 245, 248; and Hungarian op-tants, 173; and Saar, 250; financial controls, 245; mandates system, 155, 396, 501, 517.
- Liberia, 71, 108, 397.
- Life Insurance Companies, diplomatic aid to, 156.
- Loucheur, Minister Louis, 253, 256, 261, 262, 265, 267, 269-270.
- Lynch Brothers, 165-166, 359.
- Manchuria, 153; Japanese occupation (1931), 87; Japanese penetration, 107, 276-277, 358; railways in, 20-21, 82-83, 87, 148, 151-152, 274-276, 491; *also see* Yalu.
- Mandates, *see* League of Nations.
- Mannesmann brothers, tubeworks in Saar, 262; *also see* Morocco.
- Mellon, Andrew W., 215, 216.
- Mere anti-imperialism, 471-477.
- Mesopotamia, 155; tabular analysis, 371.
- Method used in this study, XVIII-XX.
- Mexico, 170, 175, 205, 208, 215, 221, 223, 224, 226, 227, 362, 411; diplomatic protection in, 439, 442; investments in, Ch. 1, App. A; social revolution and vested interests, 136-139, 175-176, 405; tabular analysis, 371; U. S. interests in, 71, 445-446.
- Mixed enterprises, 18, 21, 508-509.
- Mondial supervision of investments, 471, 493, 495-497; definition, 495; specific measures, Ch. 19.
- Monroe Doctrine, 71, 88, 132, 135, 146, 162, 362, 386, 433, 435.
- "Moral influence," defined by Lord Salisbury, 88.
- Morgan, J. P. and Company, 165, 213, 216, 224, 286.
- Morocco, 79, 160-161, 231; Agadir crisis, 94, 178, 180, 194, 482; Alge-ciras Conference and Act, 143, 179, 181, 182, 187, 540; and conquest of Tripoli, 64, 68; claims of Mannesmann brothers, 107, 178-195, 359, 364, 422, 445, 483; Franco-German accord (1909), 94, 153, 179, 186, 482-484; Franco-German conflict in, 84, 153, 271-272; French penetration, 271, 292; German banks ("go on strike when Morocco mentioned"), 272, tabular analysis, 371.
- Morrow, Ambassador, Dwight, 175, 216.
- National advantage of foreign investments, Ch. 4; principle of, 360f., 478.
- National City Bank, 133, 219, 277, 286.
- National City Company, 3, 224.
- National power, prestige, aided by investment, 74f., 101, 220, 351, 360f., 418, 433.
- National supervision of investments, 471, 477-493.
- Nationalism, 494, 507, 516-517; and trend of investments, 16.

General Index

- Native labor problems, 393-397.
 Navies and foreign investment, 74-76, 96-100, 176, 364, 433.
 Neutral capital, 237, 363, 411-412.
 New Guinea Company, 321-322.
 N'Goko Sangha affair, 229-232, 484; tabular analysis, 371.
 Nicaragua, 205-206, 227, 286; tabular analysis, 371.
 Oil investments, 154-157, 240; and sea power, 76, 106-107; government oil companies, 282; in Mexico, 136-139.
 Olney, Secretary of State, 146.
 Open Door, 153-157, 187.
 Oriental Development Company, 21, 276-277, 325.
 Panama, and Canal, 20, 71, 88, 135, 150, 158-160, 362, 366, 433.
 Pan-German League, 100, 190, 194, 422, 483, 486.
 "Patriotic investments," 72, 288-289, 313, 320-321, 337, 348, 376, 425-426; definition, 29; examples, 68.
 Peaceful penetration, 63, 65, 80f., 178, 235f., 248f., 271f., 328f., 405; means of resistance to, 405-414; turns to military means when blocked, 346.
 Peonage, 394f.
 Persia, 79, 142, 363, 364, 365, 386; Anglo-Russian agreement, 80, 479; Anglo-Russian rivalry in, 85, 358, 445; attempts to resist penetration, 410, 411-412, 413; Discount Bank of, 87, 278, Imperial Bank of, 75, 130, 278; investments in, Ch. I, App. A; Reuter concessions, 127-130; tabular analysis, 371.
 Persian Gulf, 40-51, 165-166, 448, 487.
 Peters, Dr. Karl, 312, 313, 319-320.
 "Philanthropy plus five per cent," 196.
 Philippine Islands, 177.
 Pichon, Foreign Minister Stephen, 193, 228, 229, 232.
 Political determinateness of investment area, 378f.
 Portfolio investments, 21-25.
 Portugal, colonies in Africa, 85-86; investments abroad and from abroad, Ch. I, App. A; railways in, 164.
 Press sensationalism, 392, 433.
 Private armies and filibustering, 205, 208.
 Private investments, definition, 18, 21.
 Promotion of export trade, 101f., 140-141.
 Propaganda, by foreign investor, 190-195, 197, 200-203, 225-234; by governments to influence investors, 288-289, 298.
 Protectionism, and investment conflict, 432, 480, 517.
 Raw materials, 106-107.
 Reluctance of capital to undertake hazardous ventures abroad, 271-273.
 Reuter, Baron Julius de, concessions in Persia, 127, 130.
 Revelstoke, Lord, *see* Baring Brothers.
 Rhodes, Cecil, 195-203, 214, 222, 232-234, 289, 315-317, 358-359.
 Rich, Commandant, 253, 256-257.
 Rochefort, Henri, 327-328.
 Röchling brothers and Saar firm, 251, 257-260, 266.
 Roosevelt, President Theodore, 96, 213.
 Rosen, Dr. F., 181f.
 Rothschilds, 274, 290, 293.
 Roustau, Consul in Tunis, 328, 335, 339, 341f.
 Royal Dutch-Shell, 155, 156, 205, 207, 222, 225.
 Royal Niger Company, 310-312.
 Rubattino, Commander, 344f.
 Rumania, agrarian reforms, 172-174; investments in, Ch. I, App. A; tabular analysis, 371.
 Russia, Tsarist, expansionism of, 428-429; foreign investment policy, 73, 273-275, 278; hostility to foreign capital, 402; *also see* U. S. S. R.
 Russo-Asiatic Bank (Russo-Chinese), 83, 275, 285.
 Russo-Japanese War, 23, 29, 56f., 83, 94; *also see* Yalu.
 Saar territory, penetration in, 248-270, 291, 384-385; tabular analysis, 371.
 Salisbury, Lord, 88, 145, 286, 314, 316, 338, 340, 348.
 Salter, Sir Arthur, Introduction by, IX-XIII; and *see* index of writers.
 Samoa, 28, 77, 97, 109-127, 162, 220, 282, 321, 358; tabular analysis, 371.
 Sancy affair, Tunis, 341f.
 Santo Domingo, 166-167, 208.
 Schacht, Dr., 37, 40.
 Schneider-Creusot, 185.
 Schön, Freiherr von, 186-190.
 Self-help by investors, 204-209.
 Shantung, Germany in, 75, 151, 285, 291; Japan in, 84-85.
 Shaw, George Bernard, XV.
 Short-term investments, 17-18; withdrawal as means of political pressure, 94-95.
 Shuster, Morgan W., 87, 412.
 Siemens, Georg von, 289, 292-293.

General Index

- Singer Sewing Machine Company, labor troubles in Japan, 391f.
- Social revolution or reform, and property rights, 26, 167f., 403-405; in Mexico, 136-139, 175-176, 405; in Rumania, 172-174; in Russia, 168-169.
- South Africa, 222, 232-234, 315-317; investments in, Ch. 1, App. A; Jameson Raid, 195-203, 317, 358; tabular analysis, 371.
- South Manchurian Railway, 83, 275-276, 325.
- Spanish-American War, 433.
- Spheres of interest and influence, 8of., 150-152, 477-480.
- Standard Oil, 3, 156, 207, 225.
- Steinberger, Colonel A. B., and Samoa, 115f.
- Stumm Brothers, Saar firm, 251-257.
- Subsidy, participation, guarantee by governments, 273-282, 336, 345, 376.
- Suez Canal, 20, 274, 280, 445.
- Sullivan and Cromwell, 134, 224.
- "Surplus capital," 64, 273, 424, 430; notion criticized, 419-420.
- S.V.E.A. (La Società per lo Sviluppo Economico dell' Albania), 90, 242f.
- Taft, President William H., 147-148, 488.
- Tardieu, André, and Homs-Bagdad affair, 227-229; and N'Goko Sangha affair, 229-232; and Saar, 249, 269.
- Technology, and new problems, 458, 472, 507, 519; and shrinkage of world, 15.
- Temps, Le* (Paris), 228-232.
- Tied loans, 103-105.
- Times, The* (London), and South Africa, 201f.; and Tunis, 347.
- Tirpitz, Admiral von, 75, 78, 98.
- Tittoni, Romolo and Tommaso, 65, 66, 217.
- Transylvania, 173.
- Triple Alliance, *see* Italy.
- Tripoli, Italian interests in and conquest of, 29, 62-70, 282, 291, 339, 358, 410, 445; tabular analysis, 371.
- Tunis, 29, 410, 430; investments in, Ch. 1, App. A; penetration and conquest of, Ch. 12, 358, 445; railways in, 21, 282, 330, 335f., 344f.; tabular analysis, 371.
- Turco-Italian War, *see* Tripoli.
- Turkey, 364, 411, 414; French naval demonstration, 86-87; investments in, Ch. 1, App. A; *see* Bagdad railway; *see* Tripoli.
- Turkish Petroleum Company, 155, 156.
- Uganda, 220, 312-315, 320.
- Union des Mines Marocaines, 185f.
- United Fruit Company, 21, 28, 89, 204, 207, 208-209, 326.
- United States, admission to capital market, 108; Bureau of Foreign and Domestic Commerce, 141; expansionism of, 432-433; foreign investment policy, 71, 73, 146-148, 171-172, 273-274, 297, 300-302, 362-363, 365-366; support of oil companies, 154-157; *also see* Caribbean region.
- U.S.S.R., 175, 301, 384, 394, 413, 490, 491; propaganda of investors against, 168-169; tabular analysis, 371.
- Venezuela, 130-132, 364; investments in, Ch. 1, App. A; tabular analysis, 371.
- Versailles Peace Conference and Treaty, 31, 40, 195, 248-249, 252, 264, 267, 269, 385.
- Viner, Jacob, XX; and *see* index of writers.
- Waddington, Foreign Minister, 338f.
- Webb, William H., and American interests in Samoa, 110, 113, 114, 115.
- Weber, Theodore, in Samoa, 111, 115, 117-119, 123.
- Wilbur, Secretary of Navy, 98.
- Wilhelm II, 44, 46, 98, 197, 203, 215, 218, 219, 290, 487; and Morocco, 179, 181, 194; effect of foolish speeches, 45.
- Wilson, F. M. Huntington, 71-72, 89, 272, 286, 365.
- Wilson, President Woodrow, 148, 223, 236, 249, 362; on Mexico, 137.
- Wönckhaus firm, in Persian Gulf, 40-51, 448.
- Wood, Sir Richard, 329-330, 335, 337, 340, 344.
- World commercial court, proposed, 502-504, 505, 540-546.
- World consular service, proposed, 510-514.
- World government and loyalites, IX-XIII, 465-466, 491-497, 516.
- World investment bank, proposed, 509-510.
- World investment commission, proposed, 498-502, 505, 514.
- Wright, Quincy, XX; Foreword by, V-VII; and *see* index of writers.
- Yalu, timber concessions, 23, 29, 56-70, 358; tabular analysis, 371.

Index of Writers Cited and Persons Interviewed

- Addis, Sir Charles (interview), 152, 481.
 Afschar, Mahmoud, 85, 128, 129, 278.
 Alberti, Mario, 240, 242.
 Arndt, P., 364, 526, 528, 529.
 Arning, Wilhelm, 181.

 Bacon, Nathaniel T., 529, 531.
 Baillaud, Emile, 311.
 Ballod, 528, 529.
 Barra, F. L. de la, 503, 542.
 Bau, M. J., 81, 107, 153, 276.
 Baudhuin, F., 534.
 Beard, Charles, 98, 105, 147, 205, 212, 214.
 Beard, Mary, 98.
 Bekker, L. J. de, 208, 226.
 Billot, Albert, 92.
 Bitter, Wilhelm, 89, 208.
 Blunt, W. S., 202.
 Blythe, Samuel G., 137.
 Bonn, M. J., 515.
 Borchard, E. M., 139, 169, 170, 173, 443, 542.
 Bouissi, Raymond, 292.
 Bowley, 524, 525.
 Brailsford, H. N., 57.
 Brandenburg, 179.
 Brandt, M. von, 284, 299.
 Bratter, Herbert M., 276.
 Broadley, A. M., 331, 335, 344, 345, 349, 351.
 Brown, A. J., 61.
 Buell, Raymond Leslie, 88, 108, 132, 396, 397.
 Bullington, John P., 139.
 Bullock, Charles J., 531.
 Burke, 217.

 Caillaux, Joseph, 231, 294, 483, 485.
 Caix, Robert de (interview), 160, 161, 201.
 Calmès, Albert, 239.

 Cavaillé, Marius, 161.
 Challaye, Félicien, 62, 229, 231.
 Chase, Stuart, 395.
 Cheng, M. J., 400.
 Chéradame, André, 215.
 Christians, W., 528.
 Churchill, Winston S., 76.
 Clark, J. Reuben, Jr., 139.
 Cohn, Georg, 550.
 Colliez, 161.
 Collins, W. F., 401.
 Colvin, Jan Duncan, 202.
 Cooper, H. S., 112.
 Cox, Sir Percy (interview), 47.
 Crammond, E., 525, 527, 528.
 Crispi, Francesco, 63, 79, 92.
 Croly, Herbert, 216.
 Culbertson, W. S., 107.

 Darcy, Jean, 329.
 David, H., 529.
 Deák, Francis, 173, 174.
 Decharme, Pierre, 321, 323.
 Delbruck, Dr., 72.
 Dennett, Tyler, 94, 96, 153, 165.
 Denny, Ludwell, 156.
 Dernberg, 73.
 Deubert, Dr. (interview), 252.
 Dewey, Davis R., 390.
 Doheny, E. L., 223.
 Douglas, Paul H., 133.
 Drouard (interview), 264, 267.
 Dunn, Frederick Sherwood, 137, 138, 139, 437, 438, 439, 440, 446, 449, 450.
 Dunn, Robert W., 206.
 Dupriez, Léon, 534.

 Earle, E. M., 166, 215, 411, 485, 486, 487.
 Eccard, Frédéric, 268.
 Eckardstein, H. von, 179.

Index of Writers

- Estournelles de Constant, P. H. B.,
330, 331, 332, 333, 335, 339, 347, 352.
Everett, Guerra, 551.
- Faucon, Narcisse, 329, 341.
Feis, Herbert, 20, 80, 86, 87, 91, 93, 105,
130, 146, 164, 175, 217, 225, 296, 297,
298, 299, 300, 363, 364, 411, 487, 535.
Ferry, Jules, 341.
Fisher, Lord, 76.
Fisk, H. E., 529, 530, 531, 532.
Flint, Charles R., 214, 410.
Fort, G. Seymour, 196, 198.
Foville, A. de, 526.
Franke, O., 58, 61.
Fraser, W. K., 550.
- Gargas, S., 282.
Gartner (interview), 207.
Gibson, A. H., 74.
Giffard, Pierre, 335.
Giffen, Sir Robert, 524, 525.
Gilmour, T. L., 279.
Giollitti, Giovanni, 70.
Gordon, Leland James, 412.
Gowen, Herbert H., 399, 400, 401.
Grühl, Max, 363.
Guiot (interview), 202, 271.
Gulinelli, Adolfo, 240.
Guyot, Yves, 527.
- Hagen, Maximilian von, 123.
Haldane, 487.
Hall, Josef Washington, 399, 400, 401.
Hallberg, Charles W., 274.
Harris, John H., 316, 317.
Hawtreay, R. G., 77, 381.
Helfferich, Karl, 79, 85, 92, 94, 102,
164, 166, 285, 289, 293, 299, 365, 379,
412, 430, 487, 529.
Hendrick, Burton J., 362.
Herlt, Gustav, 411.
Hertz, Richard, 112, 120, 121, 122.
Hirst, 525.
Hobson, C. K., 4, 524, 527, 529, 530,
533.
Hobson, J. A., 201, 232.
Hornbeck, Stanley K., 222.
Hovey, Carl, 213.
Howe, F. C., 56.
Hsu, Mongton Chih, 281, 399.
Huldermann, Bernhard, 218.
Humboldt, Wilhelm von, 458.
- Ibbeken, Rudolf, 164, 365.
Ischchanian, Dr. B., 402, 534.
- Jenks, 524.
Jordan, David Starr, 62.
Judet, E., 225.
- Kehr, Eckart, 99, 100.
Kent, P. H. B., 84.
Keynes, J. M., 528, 529.
Kindersley, Sir Robert, 525, 535, 536.
Kirkaldy, A. W., 74.
Klaussmann, 45.
Knight, Melvin M., 167, 396.
Koch, 528.
König, Heinrich, 534.
Kuhn, Arthur K., 550.
- Lamont, Thomas W., 20.
Lancken, Oscar Freiherr von der, 179,
231, 485.
Landmann, Julius, 103, 533.
Langer, William L., 57, 58, 59, 61.
Lapworth, Charles, 67.
Laski, Harold J., 57, 420.
Laves, Walter H. C., 175, 365, 500.
Lavissee, E., 126.
Leroy-Beaulieu, Paul, 336, 526.
Lawton, Lancelot, 276.
Lévy, R. G., 526.
Lewinsohn, Richard, 217, 218, 290.
Lewis, Cleona, 524, 527, 530, 535.
Lichnowsky, Prince K. H., 86.
Lippman, Walter, 139.
Lockhart, R. H. Bruce, 169.
- MacMurray, John V. A., 82, 83, 275,
286.
Madgearu, Dr. Virgil (interview), 207.
Malloy, William M., 144.
Malpas, Jean, 527.
Manger, William, 534, 536, 537.
Manoilescu, Minister of Commerce
Mihail (interview), 207.
Martin, G., 527.
Martin, R., 264.
Masten, C. K., 550.
Mata, Carlos Garcia, 536, 537.
Mautner, Wilhelm, 225, 282.
McCordock, R. Stanley, 145.
McDermott, P. L., 313.
McDonald, J. G., 316.
McGuire, C. E., 524, 529.
Meade, Commander, 113.
Mennevée, R., 217.
Mercier, A., 503.
Merriam, Charles E., 518.
Metz, Theodore, 533.
Meynial, Pierre, 527.
Michell, Sir Lewis, 222, 316.
Millsbaugh, A. C., 412.
Milner, Lord, 161.
Minost, E., 22, 509.
Miquel, 528.
Moon, Parker T., 63, 70, 179, 195, 205,
281, 311, 395.
Moore, J. B., 147.

Index of Writers

- Moore, Samuel Taylor, 227.
 Morel, E. D., 185, 231, 395.
 Morley, 487.
 Moulton, H. G., 524, 527, 529, 534, 535, 537.
 Muller, August, 529.
 Nash, 524.
 Newton, Lord, 88, 145.
 Neymarck, Alfred, 526, 527.
 Nogales, Rafael de, 206, 226.
 Norton, Henry Kittredge, 398, 399, 401, 403.
 Ogg, F. A., 148, 149, 150.
 Olsen, Iver C., 409.
 Osborne, John B., 529.
 Osman, Hans A., 190.
 Overlach, T. W., 83, 84, 151, 152, 281, 285.
 Paish, Sir George, 28, 525, 529, 531, 535.
 Peruzzi, Ubaldino, 345.
 Peyerimhoff, M. H. (interview), 185, 189.
 Pinon, René, 66, 68, 70.
 Piquet, Victor, 330.
 Pistorious, 529.
 Pohl, Dr. Heinrich, 181.
 Poincaré, Raymond, 225.
 Polak, Raphael, 407.
 Politis, N., 534, 547.
 Pomaret, Charles, 406.
 Pooley, A. M., 216.
 Pound, Arthur, 227.
 Pribram, A. F., 63.
 Pringle, Henry, 96.
 Quintana, Arturo Orzábal, 414.
 Raducano, Dr. Ion, 172.
 Rambaud, Alfred, 96.
 Remer, C. F., 24, 276, 534, 535, 536.
 Riedler, A., 506.
 Riesser, Dr. Jacob, 72, 528.
 Rightmire, Bertha M., 317.
 Ripley, W. Z., 531.
 Rippy, J. Fred, 130, 132, 159, 160, 362.
 Roberts, S. H., 325.
 Robinson, Charles Henry, 311.
 Roger, Noëlle, 172.
 Ronaldshay, Earl of, 287.
 Rosen, Friedrich, 181.
 Roustan, 350.
 Rupp (interview), 260.
 Ryden, George Herbert, 111-127 *passim*.
 Saint-Hilaire, Barthélemy, 350.
 Salisbury, Lord, 88.
 Salter, Sir Arthur, 492, 512.
 Sander, L., 323.
 Say, L., 526.
 Schacher, Gerhard, 207, 247.
 Schanzer, Carlo, 70.
 Schleifenbaum, Dr. Fritz, 253, 254, 258, 259, 260, 261, 270.
 Schmidt, Fritz, 263.
 Schmirt, Bernadotte E., 485.
 Schmoller, G., 528.
 Schon, Wilhelm Eduard Freiherr von, 79, 187, 487.
 Schreiner, 63.
 Schuman, Frederick L., 78.
 Schwabach, Paul von, 99, 179, 287.
 Scroggs, William O., 31.
 Séfériades, St. P., 540, 541, 542, 546.
 Segal, S., 543.
 Seyd, 524, 526, 531.
 Shuster, William Morgan, 87.
 Siebert, 63.
 Siegfried, André, 515.
 Singer, Kurt, 529.
 Smith, Arthur D. Howden, 206.
 Soule, George, 490.
 Southard, Frank A., 105, 393, 407, 408, 409.
 Speare, Charles F., 529.
 Speyer, 525.
 Spiropoulos, Jean, 543.
 Staley, A. Eugene, 180, 235, 248.
 Stauffacher, W., 533.
 Stead, W. T., 69.
 Steffens, Lincoln, 221.
 Steinmann-Bucher, 528, 529.
 Stephenson, W. Tetley, 400.
 Sterndale, F. B., 112.
 Stevenson, Robert Louis, 118, 126.
 Swire, Joseph, 236, 239, 240, 241, 243, 245.
 Sykes, Sir Percy, 43, 75, 87, 208.
 Tacke, Gerd, 104.
 Tardieu, André, 84, 153, 180, 185, 193, 194, 482, 483, 485.
 Ténékidès, Georges, 543.
 Théry, E., 526, 527.
 Thimme, Friedrich, 218.
 Thomas, H., 408.
 Tirpitz, Admiral Alfred von, 75, 78.
 Tittoni, Tommaso, 66.
 Townsend, Mary E., 97, 318, 319, 321, 322, 323, 432.
 Toynbee, Arnold J., 491.
 Tramerie, Pierre l'Espagnol de la, 154.
 Tucker, Rufus, 531.
 Tumulty, Joseph P., 138.
 Turlington, Edgar, 176.
 Vassel, Dr., 184.
 Vatin, Fernand, 336, 337, 345.

Index of Writers

- Viner, Jacob, 68, 91, 92, 96, 105, 285,
297, 298, 300, 301, 302, 303, 379, 510.
Violette, Maurice, 229, 230, 231, 232.
- Waltershausen, Sartorius von, 73.
Wambaugh, Sarah, 249.
Ware, Edith E., 143.
Warren, Charles, 139.
Weber, H. S., 260.
Wehberg, Hans, 541, 542, 546.
Wells, David A., 531.
Wertheimer, Mildred, 190.
Whigham, H. J., 142.
Wiat, Carton de, 310, 311, 476.
Wilhelm II, 98.
Willehn, A., 191.
Williams, Basil, 196, 198, 199, 200, 201,
202, 203, 222, 233, 316.
Williams, Benjamin H., 108, 135, 139,
150, 154, 156, 157, 163, 170, 172.
Williams, John H., 531.
- Williams, Sir John Fischer, 550.
Willoughby, W. W., 83, 85, 150, 151,
152, 153, 275, 276, 286, 479, 488.
Wilson, F. M. Huntington (interview),
71, 73, 89, 272, 286, 291, 366.
Wilson, Lt. Col. Sir Arnold T., 50, 166,
274.
Wilson, Roland, 534, 536.
Winkler, Max, 529, 530.
Winterfeld, Ludwig von, 506.
Witmeur, E., 534.
Wolff, Sir H. Drummond, 130.
Wönckhaus, Robert (interview), 41, 50.
Wood, Sir Richard, 331.
Woolf, Leonard, 279, 313, 314, 315,
328, 420.
Wright, Quincy, 150.
- Zetland, 217.
Zimmermann, Alfred, 78, 123, 322.

